25TH ANNIVERSARY YEAR

The Washington Monthly

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My Favorite Reform: Mickey Kaus, Suzannah Lessard, and Jason DeParle

How we strangle upstart businesses

Gregg Easterbrook imagines the *Monthly*'s 50th Anniversary

THE *REAL* LEADER OF THE OPPOSITION

Phil Gramm and the surly, say-what-it-takes Republicans

By David Segal

Political Book Award Issue

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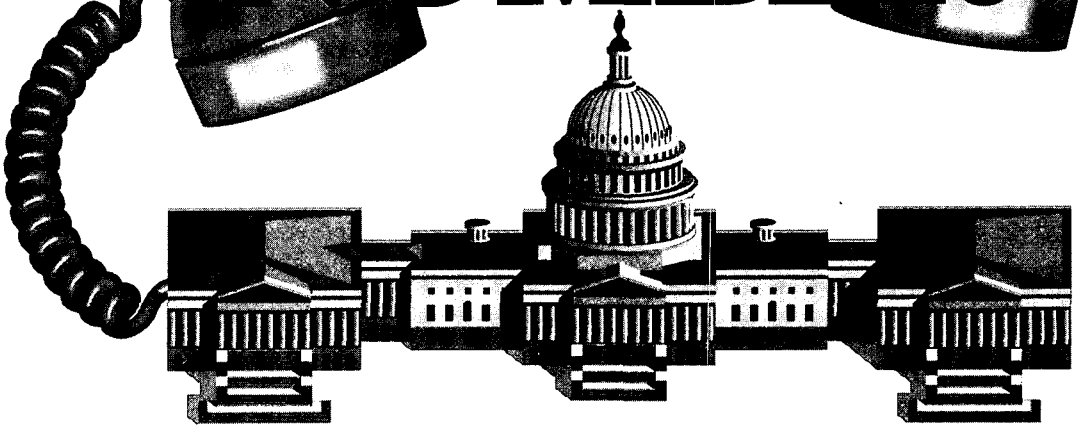

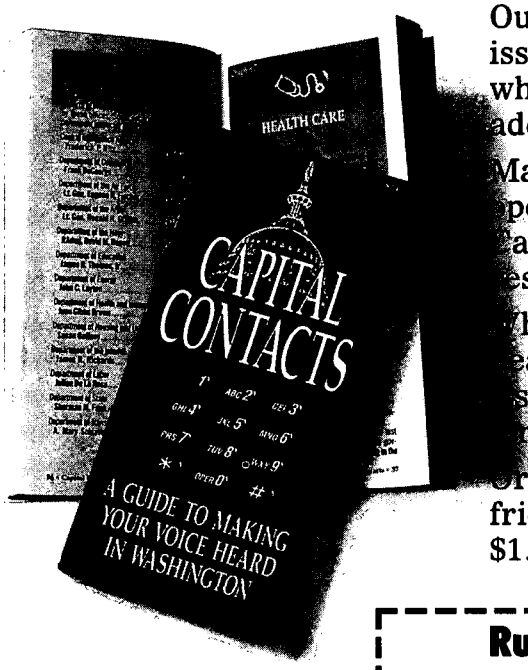

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The Washington Monthly

Volume 26, Number Three March 1994

4 Tilting at Windmills *by Charles Peters*
The law seminar at the Kentucky Derby . . . the White House correspondents' masseuse . . .what Ollie North would love to tell Fawn Hall . . . and other odds and ends. . . .

10 Why It's Too Hard to Start a New Business *by Jon Meacham*
Got an entrepreneurial idea? Pray you hit the lottery, because the odds of getting money from banks or venture capitalists aren't much better.

19 Critical Lessons From the Health Reform Front *by The Editors*
The *Monthly* offers concrete principles to give everyone, rich and poor, the same high quality care.

22 What Hillary Could Learn From Canada and Germany *by Susan FitzGerald and Mark Jaffe*
For less money, they cover more people and they make people happier. So why not take a cue from those countries that have made the hard choices that make national health care work?

32 The Washington Monthly, 2019 *by Gregg Easterbrook*
A contributing editor predicts what the *Monthly*'s 50th anniversary issue will be like.

38 The *Real* Leader of the Opposition *by David Segal*
Phil Gramm and the surly, say-what-it-takes Republicans.

My Favorite Reform

49 Give Everyone a Job *by Mickey Kaus*
"There are people who need work. There is work that needs doing. Why not pay the people to do the work?"

51 End Discrimination and Increase Productivity *by Suzannah Lessard*
"When society accepts any group as it is and creates an environment in which that group can thrive, there is a direct material benefit for society."

52 Build Single Room Occupancy Hotels *by Jason DeParle*
"The main goal is to get homeless people off the streets. But pensione-like hotels also promote the class-mixing this magazine values."

ON POLITICAL BOOKS

54 The Enemy Is Us *by Phillip Longman*
Everyone knows it's those damn special interests that bedevil efforts to rein in the federal deficit. The problem is that nearly everyone these days is a special interest.

58 Political Booknotes *Reviews by Howard Kurtz and E. Fuller Torrey*

DEPARTMENTS

2 Letters
43 Memo of the Month
48 Monthly Journalism Award
31 Annual Political Book Award
16 Who's Who
18 Tidbits and Outrages
37 Political Puzzle

Cover Illustration by Loren Long

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Letters

Pyromedia

James Fallows' article ["Rush to Judgment," January/February] reminded me of a parable by the Danish philosopher, Søren Kierkegaard: Commenting on journalistic opinion peddlers who have an instant viewpoint on everything, he suggested that they ". . . May be likened to sulphur-matches which are sold in bundles (like matchbooks nowadays). Such an author, upon whose head is deposited something phosphorescent (the suggestion of a project, a hint), one takes up by the legs and strikes him on a newspaper, and out there comes three to four columns. And the premise-authors have a really striking resemblance to sulphur matches—both explode with a puff" (*On Authority and Revelation).*

Punditry may have its dangerous tendencies, and the main point of Fallows' article has merit, but the pundits were around long before the Woodward and Bernstein era.

Otto A. Sotnak
Chassell, MI

Chinese Food For Thought

I read with interest David Segal's article on congressional oversight ["A House Divided," January/February]. However, he apparently has looked no further than the borders of the U.S. in his search for workable alternatives.

Both Taiwan and Singapore have two separate representative bodies, the Legislative Yuan and the Control Yuan. The Legislative Yuan passes the laws. The sole purpose of the Control Yuan is oversight. It passes no laws.

So you have a separate body dedicated to investigation. This not only gives you the separation of legislation and oversight Segal points out is so necessary, it also gives you an independent body to handle all investigations of the legislative and executive bodies. This would eliminate both the fights over appointing special prosecutors and the conflict of interest with Congress' ethics committees.

Granted, adding a fourth branch of government is no trivial task. Nor is it one to be entered into lightly. However, considerations like these have never stopped the *Monthly* from considering a possible solution before. And I think the Control Yuan is a place where we can learn from the Chinese.

David Thielen
Redmond, WA

Résumés and War Paint

Your criticism of society's blind faith in credentials, particularly in education ["Tilting at Windmills," January/February], echoes a complaint made by Herbert Spencer in his book, *Education*, published in 1860:

"It is not the savage chief only, who, in formidable war paint, with scalps at his belt aims to strike awe into his inferiors, but the scholar, the historian, the philosopher use their acquirements to the same end. We are none of us content with quietly unfolding our individualities, but have a craving to impress them upon others, and in some way subordinate them. And this it is which determines the character of our education. Not what knowledge is of most real worth, is the consideration, but what will be the most imposing. As, throughout life, not what we are, but what we shall be thought, is the question; so in education, the question is not the intrinsic value of knowledge, so much as its effects on others. And this being our dominant idea, direct utility is scarcely more regarded than by the barbarian when filing his teeth and staining his nails."

Henry Fogel
Lexington, MA

Raw Deal

In his paean to FDR and the thirties ["What Will Rogers Could Teach the Age of Limbaugh," January/February], Jon Meacham unwittingly points to FDR and the New Deal as evidence that Americans can once again overcome their worst tendencies and pull together. The only obstacle we face in passing more legislation like the New Deal, the argument goes, is the lobbying organizations which now inhibit Washington.

But Meacham fails to understand that the attitudes and institutions of the thirties no longer exist precisely because of FDR. He notes that "FDR could appeal to a nation that had not yet organized itself into chain-link fence manufacturers and mohair farmers; Clinton cannot." However, it was the New Deal and its progeny that made such organizations possible. If the government is willing to intervene in the economy and change market outcomes, spending resources to

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influence government decisions is profitable.

According to Meacham, there are now 20,000 lobbying organizations in Washington. These organizations are part of the FDR legacy. Now it should not be surprising that many Americans are cynical about the Washington money chase. Rush Limbaugh is at least in part a product of that cynicism. Ultimately then, Limbaugh is part of the legacy of FDR.

I would be a fool to deny that there were not obvious benefits to the increased role of government in the economy. Yet policies that provide benefits often have unintended negative consequences. By emphasizing the costs of increased lobbying activity, Meacham gives libertarians something to cheer about.

Don Vandergrift
Boston, MA

Party Pooper

No doubt Jon Meacham's article will be greeted by an outpouring of vitriol from Rush Limbaugh's loyal votary, self-identified—apparently so—as "ditto-heads." Nevertheless, Meacham's essay constitutes a penetrating assessment of what currently ails the American body politic, although it regrettably stops short of proposing a remedy not worse than the disease.

As representatives of a public mood or political culture the stark differences between Rogers and Limbaugh couldn't be greater. But what are we to make of Limbaugh *qua* Limbaugh, someone identified by many on the right and left as the leading intellectual of the Republican party? (It's difficult to take such a claim seriously, but it's been said or implied, not only by Democratic consultant James Carville but by the editors of *National Review.)*

Rogers, unlike Limbaugh, was not motivated by personal aggrandizement. Limbaugh is best compared instead to Huey P. Long, the former Democratic governor, U.S. senator, and presidential candidate from Louisiana. The similarities between these two American demagogues are profound and abundant. At the most basic, like Huey P. Long, Limbaugh is engaged in the unapologetic and relentless pursuit of money and power. Like Long, Limbaugh has developed a loyalty among his followers which is personal, linked only tenuously to political principle or party ideology. Limbaugh speaks in terms of principle and ideology, but only on his terms. Increasingly Limbaugh's radio show is consumed with a discussion of Limbaugh himself and what others are saying about him.

Frankly, this tendency poses a far greater threat to the viability of the Republican party than it does to the Clinton administration in the months ahead; just as Huey P. Long threatened the survival of the Roosevelt's New Deal far more than the GOP. Republicans realize this too, though they are hesitant to say so publicly. Eventually they will have to unmask Limbaugh as the Democrats were forced to do to Long in Louisiana, or be content to suffer the partisan and political consequences. Meacham's essay is a small step in that direction, but I'll rest easier when such essays become commonplace in outlets for conservative opinion.

Mark P. Petracca
Irvine, CA

Correction

An item in last month's "Who's Who" column mistakenly listed Secretary of Housing and Urban Development Henry Cisneros as one of the 11 lawyers in President Clinton's cabinet. Mr. Cisneros' office assures us he is not guilty of being a lawyer. We regret the unjust accusation.

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Tilting at Windmills

Speaking to reporter Tim Larimer, Marlin Fitzwater offered this grim assessment of what it's like to be the White House press secretary:

"In the end, in the White House, nobody really helps you. You're alone. When it comes down to finding the real facts about an issue, people are self-serving. They tell you whatever is their idea, whatever helps their cabinet department. In the end, you can never trust anyone entirely. You have to do the work yourself."

What few people who haven't actually been there realize is how little the White House knows about what's going on down below. Not only are cabinet members not eager to tell the president how their department is screwing up, but the White House itself is not equipped to uncover the bad news. "No one here ever reads the GAO reports," one Clinton aide told me a few months ago. Attention is paid to the items on the president's agenda, or on individual staffers' personal agendas, and to whatever is dominating the week's news. So really bad things can happen, like the S&L scandal, with no one in the White House knowing—or if anyone knows, he may feel it's better to say nothing and try to keep the lid on in hopes that public knowledge of the scandal can be averted until the president has been re-elected. . . .

Buried in a recent article about Pamela Harriman in *The New York Times* was the fact that as our ambassador to France, she presides over a 1,100-member embassy staff. Why do we need that many employees in Paris? A few years ago the *Monthly* published a piece about the U.S. embassy in London that revealed we had a staff of 700 there, larger than the ones in more important posts such as Tokyo, Beijing, and Moscow. The reason we have so many people in places like Paris and London and Rome (which is another overstaffed diplomatic post) is because these are nice, glamorous places to live and the foreign services have dedicated themselves to creating the maximum number of jobs at such posts. . . .

The imagination that the foreign services devote to dreaming up essential tasks that must be performed on the banks of the Seine, Thames, or Tiber is almost unequalled. But the diplomats' creativity is rivaled by the folks who think up medical or legal seminars that justify a tax deduction to visit a resort, take a cruise, or attend a sporting event. Their latest triumph is an Equine Law Seminar sponsored by the the University of Kentucky School of Law on—you guessed it—the weekend of the Kentucky Derby. . . .

Just the other day, a Washington reporter called to ask me if the Clintons' Little Rock was a place where, because everyone knows everyone else, conflict-of-interest corruption was accept-

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ed as customary and normal. He assumed I qualified as an expert witness because I came from a similar state capital, Charleston, West Virginia. My answer was that, yes, there is a lot of that kind of corruption. But I emphasized that you don't *have* to be part of it.

As I have tried to point out in this space, Hillary Clinton did not have to represent a state-regulated savings and loan while her husband was governor. She could have chosen a practice which did not rely in any way on her status as the governor's wife. There is a vast amount of law—involving, for example, contracts, crime, divorce, personal injury, and wills—that does not require action by state agencies or membership in a firm that wants to give potential clients the appearance of influence with the governor.

Mrs. Clinton chose to practice with a big Little Rock firm that did practice before state agencies and very much wanted to appear connected. She could have chosen a practice that might have been less lucrative and less prestigious, but she could have made a nice living—perhaps $50,000 to $85,000 a year—on her own or with a small firm. But my guess is that she wanted the prestige of the big firm—after all, she went to Yale—and the money she could make with such a firm. It is also clear from many comments the Clintons made to friends that she felt considerable self-pity about the $35,000 salary he was making as governor. . . .

There is one way I feel sorry for the Clintons. It is that Robert Fiske, the special prosecutor in the Whitewater case, has announced that instead of using Justice Department lawyers who are already familiar with the facts, he's going to hire an all-new staff. This comes close to being a slow death sentence for the Clintons. What it means is that few new employees are going to come aboard for a job that could just take 60 or 100 days. They will want something more significant in terms of the investigation's duration, both for resume and income purposes. This means that, either consciously or unconsciously, they're going to be motivated to find that there is a case against the Clintons. . . .

You've heard about the terrible consequences Proposition 13 has had for California's schools, but like me you may not have known about its effects on the legal system. Justice, it seems, is now on sale in the Golden State. Crimes will be prosecuted if the victim can pay the cost of the investigating—this happened in recent cases involving Northern Telecom and Continental Cablevision. The victim who can pay the expenses of witnesses to testify on his behalf is more likely to see the perpetrators punished. In workers' compensation cases, prosecutions are subsidized by a fund controlled by corporations with an interest in holding down claims whether justified or not. . . .

You may also have been like me in thinking that the prohibition Congress enacted in 1992 on lobbying by former members would at least keep the revolving door from turning for a year. But it develops that this law has had no more effect than a similar edict by the Clinton administration had on Howard Paster and Roy Neel. The trick in the case of the congressmen who retired after the 1992 session is that, although only one has been accused of directly lobbying Congress, 40 percent have joined firms that do lobbying. What do the former congressmen do for the firms? They devise lobbying *strategies*. They don't directly solicit current congressmen's votes. They simply tell their lobbyist colleagues exactly how to do it. This doubtlessly occurs just after they have returned from a Thursday prayer breakfast which ex-members attend with the current members or from a game of volleyball in the House gym to which the former members are admitted on an equal basis with incumbents. . . .

In January, I wrote an article for *The New York Times* that before criticizing him for other ethical transgressions, acknowledged Bill Clinton's apparent exoneration by Trooper Ferguson's affidavit of the charge of having offered jobs

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in return for silence by state police officers. Friends in Arkansas were quick to let me know that Trooper Ferguson had not executed an affidavit. The affidavit was signed by Ferguson's lawyer, who is swearing only to what Trooper Ferguson told him when the trooper was not under oath. So nobody is swearing to anything. The affidavit is nothing more than another White House evasion, but it was clever enough to fool a lot of people, including me.

This episode caused me to review the Gennifer Flowers tapes. I find the following excerpts especially interesting:

Clinton: "I'm sorry that you ever had to put up with that [garbled]."

Flowers: "Well, you know, to be real honest with you, I'm not completely surprised. I didn't think it would start this quickly. But I think, Bill, you're being naive if you think these other shows like 'Current Affair' and oh, what are some of the others—'Hard Copy'. . .

Clinton: "You know, if all the people who are named deny it, that's all, I mean, I expect them to look into it and interview you and everything, but I just think that if everybody's on record denying it you've got no problem. . . If everybody kind of hangs tough, there's just not going to be anything. They can't.

"If they don't, if they don't have pictures, and no one says anything, they don't have anything, and arguably if someone says something, they don't have much."

Flowers: "If they could blow you out of the water they would have already blown you. . . "

Clinton: "How do you like holding my future in [garbled] hands? Do you like that?"

Flowers: "The only thing that concerns me, where I'm concerned at this point is the state job."

Clinton: "Yeah, I never thought about that. But as long as you say you've been looking for one, you'd check on it. If they ever ask if you talked to me about it, you can say no."

Flowers: "All right, darling. Well, you hang in there. I don't mean to worry you, I just. . ."

Clinton: "I just want to know these things. If I can help you, you let me know."

Flowers: "Well, when you can help me is when I decide I want to get the heck out of here."

Clinton: "All you need to do is let me know."

Flowers: "Because I don't know, I don't know where to turn. I really don't. I mean my contacts have just sort of fizzled in Nashville."

Clinton: "I'll help you.". . .

Mothers Against Drunk Driving (MADD) was founded by a woman named Candy Lightner whose 13-year-old daughter was killed by a drunk driver out on bail from a previous drunk driving charge. Her organization deserves much of the credit for the dramatic progress that has been made in reducing deaths caused by drunk drivers. But now Mrs. Lightner is joining up with the enemy. In the great tradition of those who first come to Washington to do good and end up doing well, she is cashing in by joining the lobbying firm for the American Beverage Association, where her first project will be to work against state laws tightening standards for drunk driving.

She reminds me of the Cash-In King, Vernon Jordan, who parlayed a similar early career in good works (in his case voter reg-

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istration in the South in the 1960s) into a fortune in directors' and legal fees for fronting for large corporations including RJR Nabisco, which endangers young blacks by luring them into smoking cigarettes. . . .

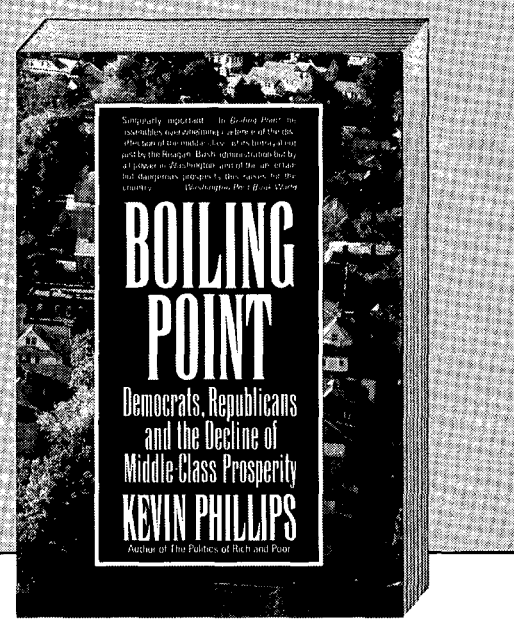
I have been wondering why so few members of the media or of the rest of the Washington establishment have joined us in criticizing the Clintons for using Vince Foster as their personal lawyer while he was being paid by the taxpayers to serve the people of the United States. The answer, I suspect, lies with the White House correspondents, who have become so cosseted by perks that they don't know an egregious perk when they see one and a Washington officialdom that is no different.

The Associated Press recently reported that Supreme Court justices have used the Court's security personnel to provide taxi service for visiting relatives, to work overtime at wedding receptions, and to push supermarket carts. When Warren Burger, then the Chief Justice, was accused of using a government driver to pick up his daughter's laundry, he indignantly replied, "It was *my* laundry."

And members of Congress are, of course, famous for their skill in abusing perks. The latest example comes from reports filed with the Federal Election Commission. It seems that congressmen have used campaign funds, which after all are supposed to be used to pay for campaigns, to pay for everything from memberships to the House gymnasium to dinners in Singapore—lots of voters there—to Carol Moseley-Braun's $4,028 bill at the Four Seasons on Maui *after* the 1992 general election. . . .

As for the White House correspondents, they were upset when Northwest Airlines distributed a memo announcing that on President Clinton's journey to Brussels and Moscow the reporters would be provided with four "specially trained masseuses to help soothe the aches and pains you've accumulated from the rigors of the trips." For years correspondents covering the president have tried to keep this kind of information from the public as part of their effort to conceal the special treatment they have gotten from the White House Travel Office, which among other things has included first class-plus service with their favorite cocktails awaiting them as they board their specially chartered planes, meals that according to a Northwest handout "will please the most discerning palate," and special bar-

Is the middle class on the brink of extinction?



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gain fares that enable the wife and kids to go along to famous resorts and world capitals. . . .

Washington recently experienced the worst water main break in its history. Unfortunately, such mishaps have become increasingly common on America's 436,000 miles of sewer and water lines, which are replaced at a rate of only half a percent per year. In Washington only 12 of 4,700 miles of water pipes were replaced last year, even though 60 percent of that pipe is of the cast iron type that is by far the most likely to break. Nationwide 48 percent of the pipe is cast iron. Low repair budgets are the main reason for the lack of activity.

I think the reason I get so angry at government waste is because there are so many cases where we need to spend much more money than we're currently allotting to meet real needs, such as those water and sewer lines. Can you believe that last year the East Palo Alto Sanitary Department spent more money for parties than it did for repairing worn sewer lines! . . .

In our Safe Answers contest, to go with "appropriate action" and "further study," one reader has suggested another Washington perennial: "at this time." . . .

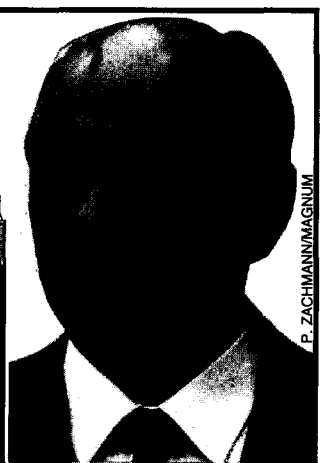
$105 billion will be spent by the government this year "contracting out" services ranging from routine maintenance to computer programming. Eighty percent of the procurement budgets of HHS, HUD, EPA, Education, and Labor is spent on these service contracts. Yet according to a just released report by Office of Management and Budget, federal agencies are doing a lousy job of monitoring contractors' performances. Part of the difficulty is that the original description of what the contractor is to do—the statement of work, or SOW—is unclear.

"The State Department indicated," says the report, "that in-house capability to develop adequate SOWs is so lacking that they have to resort to contracting for such services. State says they would prefer to do SOWs in-house, but do not have trained personnel in-house to perform this function."

If you aren't tearing your hair at this point, you should be. Why can't normally intelligent people write a description of the tasks they want performed? Why do they need special training?

As a government employee, I both supervised contractors and evaluated other government employees who supervised contractors. There is no great mystery to it. What's involved is having a clear idea of what you want done, getting enough bids to know that you're not being over-

Here's a ringside seat to history.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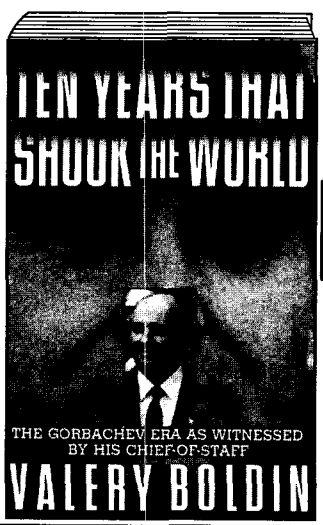

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charged, and then paying attention to what the contractor actually does and how well he does it.

There is a general rule of contractors' behavior: It is that they tend to increase their prices as they decrease the quality of their performance. If you don't pay attention to what they're doing and what they're charging, you're going to get gyped. . . .

"For a growing number of Americans," writes Jube Shiver, Jr., of the *Los Angeles Times*, "the vaunted information highway is already turning into a costly toll road." Government data collected at taxpayer expense is being sold at outrageous markups by private "on-line" computer services. For example, the status and text of pending legislation is available on-line to members of Congress. It could be made publicly available relatively cheaply, according to Shiver's article, but as of now the public must pay $1,900 annually to get the information from companies like Legi-Slate, an on-line service owned by The Washington Post Company. Sums like this are too much for most individuals and even many libraries to afford. . . .

Knight-Ridder's Frank Greve recently revealed that in 1992 only 237 out of 2.2 million civil federal employees were fired for incompetence. Even the military did better than that—considerably better, as a matter of fact, dismissing 5,600 uniformed personnel for incompetence.

Why are so few civil servants fired? Because it's so hard. Many attempted firings result in appeals and lengthy negotiations that often lead to reinstatement. One bureaucrat was reinstated even though it took him four months to complete tasks that took fellow workers two days. Supervisors, it seems, had failed to tell him precisely what they meant by "too slow."

None of Clinton's promises to reinvent government is going to work unless he makes it easier for his government to get rid of its lemons. . . .

Anyone who has ever worked in an agency that had the power to classify documents knows that far too many are stamped "confidential" or "secret" than need to be. Among the motives for overclassification are avoiding agency or personal embarrassment and the classifier's desire to feel important or dramatic. (Imagine how Ollie North must have felt when he got to order Fawn Hall to stamp something "Top Secret.") Another reason for the practice became clear in a recent *Washington Post* article that begins:

"The latest version of a new presidential order on government secrecy would require for the first time that officials weigh the public's interest in the sensitive information before it is ever stamped 'classified.'"

I hope you noticed "for the first time." The terrible significance of those words should have been brought home to us all by the recent revelations about the radiation experiments that were conducted for decades by the Department of Energy and its predecessor agencies under the cloak of classification.

One crazy result of all the overclassification is that we will have to spend millions to go through the declassification process because buried among the 99.9 percent of all the documents that shouldn't have been classified may be the one that identifies an agent in North Korea who would be shot if his identity became known. . . .

—*Charles Peters*

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Why It's Too Hard to Start a New Business

Got a great entrepreneurial idea? Pray you win the lottery, because the odds of getting money from banks or venture capitalists aren't much better

BY JON MEACHAM

When the Soviets launched *Sputnik*, in 1957, America went into a kind of indignant shock. Lyndon Johnson, then the Senate Majority Leader, drawled darkly: "The Roman Empire controlled the world because it could build roads. Later—when men moved to the sea—the British empire was dominant because it had ships. Now, the Communists have established a foothold in outer space."

Americans suddenly felt they were losing ground, and one of the results was a 1958 Federal Reserve report, commissioned by Congress, to figure out what the economy most needed to keep it strong. The answer? More capital for entrepreneurs, especially "pioneering" manufacturers. This led to the first federal small business legislation, which President Eisenhower signed.

Today, while there is no *Sputnik* to galvanize the public imagination, signals of economic and national discontent are again growing, and the Fed could dust off that report and reissue it almost verbatim. Late last autumn, the cover of *Time* magazine, a reliable gauge of middle-class worries, featured a classic black-and-white postwar Organization Man in a three-button suit, fedora, and briefcase over the headline, "Whatever Happened to THE GREAT AMERICAN JOB? The rules of the game have changed forever. Here are the new ones." These new rules are indisputably bad: Ten million people are now out of work, and the Bureau of Labor Statistics estimates another 6.2 million have taken part-time jobs because that is all they could find. The average U.S. work week topped a post-World War II high in the winter of 1994, a sign that companies are working their people harder instead of hiring new employees.

So there is clearly a crying need for jobs, and entrepreneurs are the people who create them. After all, small firms employ 60 percent of America's workers and generated most of the new jobs in the eighties. But the evidence is that despite the current reports of a rebounding economy, investments in job-producing companies—which power true recoveries—are significantly down. Total credit to business has grown just 4 percent since 1990, compared to 13 percent after the 1979-80 recession; two years after each of the

Research assistance for this article was provided by Adam Marcus and Scott Jones.

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five recessions since 1960, bank loans rose an average 10 percent. But since 1990-91, lending has *fallen* 2 percent. That may not sound like much, but remember that just 1 percentage point change in the amount of money banks lend equals $26 billion—money that would fund 100,000 new companies with $250,000 in capital each.

Why the problem? Simply, there are too many dangerous mines buried between an entrepreneur with a job-creating idea and the money to test that idea. One mine is cultural: Bankers have stopped lending and venture capitalists are attracted to big deals at the expense of the entrepreneurial startup. Another is economic: Small business lending is riskier and more expensive than other, safer, but less productive investments. Another is governmental: Washington has piled on regulations that big companies can absorb but small companies can't afford.

Does this matter? Consider that from 1987 to 1991, new companies' sales growth clobbered the Fortune 500, 35.4 percent to 1.6 percent, according to Coopers & Lybrand, a national public accounting firm. New enterprises also posted an 18 percent job growth rate each year while the Fortune 500 lost 2 percent of its jobs. And new companies generated four times as many skilled jobs as the rest of the U.S. economy put together.

While bank lending was falling to historic lows, the venture capital market answered the call with. . . nothing. Only 1 percent of the country's annual 900,000 attempted startups get any of the annual $2 billion in new formal venture capital. Four out of five startups fail, and nobody knows how many other potential entrepreneurs never get the chance to try.

But job-producing possibilities aren't missing; capital is. One of the ways to test this theory is to examine how people react when worries about capital suddenly disappear. That is, what happens when someone *inherits* money? According to research by Syracuse's Douglas Holtz-Eakin, Princeton's Harvey Rosen, and the U.S. Treasury's David Joulfaian, if you take two ordinary wage-earning people and give one of them a $100,000 inheritance, the one with the windfall is more likely to start a business than the other guy. At first blush, this doesn't seem compelling: It's like saying if we were all virtuous, there would be no crime. But think about it: This means there are thousands of people willing to take a risk, not sock it away, if the money were available.

Creating jobs and helping entrepreneurs were centerpieces of Clinton's campaign, and at a time when the largest U.S. corporations are downsizing, these tasks—always important—are even more critical than usual. Unfortunately, at the moment, if entrepreneurs don't have rich friends willing to kick them a few dollars or relatives who happen to die, the market over which Clinton and the Democrats now preside smothers them.

Liberals and conservatives alike must concede points that each hold dear to solve this. Liberals need to recognize that sometimes the best thing government can do is to get out of the way. Some regulations, no matter how noble-sounding, cost too much for small businesses to handle. Some taxes and paperwork are simply too burdensome.

But conservatives, too, need to give up their automatic assumption that the free market always works—that on a level playing field, people who are diligent enough and smart enough will win. The problem is that the playing field is not level right now; lots of good ideas never get a fair hearing (the agreed-on figure in venture capital circles is that one out of every 100 plausible deals gets funded). And government, in many cases, can be the best means of removing the obstacles which keep entrepreneurs from credit and capital. In short, creating small businesses (a slippery term, but basically ranging from businesses struggling to open to firms with 100 employees) challenges the shibboleths of left and right and requires thinking about government and the market in ways that do not fit neatly into party platforms.

Capital Punishment

Historically, half of small business credit has come from banks. But banking regulations have been increasing since the late eighties, when the S&L industry collapsed and banks were failing at unprecedented rates. (From 1940 to 1980, an aver-

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age of five banks a year closed; from 1985 to 1990, about 200 a year failed.) In 1993, Arthur Andersen and National Small Business United found that small businessmen reporting trouble with their banks were twice as likely to cite too many regulations as the problem than they were to say the bank wasn't interested in their idea.

Both the Federal Reserve and the private Center for Entrepreneurial Management estimate that the average small business loan is $25,000 to $50,000. Yet when the 1989 Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) passed, regulators went overboard, requiring extensive paperwork on all loans, which makes it just as expensive to make a small loan as it is to process a multimillion-dollar one. Instead of concentrating their examinations on big dollar deals where losses could be greater and there might be banker-client corruption, regulators are wrongly spending a lot of time worrying over small loans where the chance of a bank's customers getting ripped off is minimal.

Before 1989, for example, to make small lending easier, bankers would simply take a "blanket lien" on a small borrower's assets and base the credit decision on cash flow and other business factors. Banks may already have been tight with loans, but the 1989 act turned conservatism into frigidity. The law required, for instance, a 14-point certified appraisal of all property proposed as collateral on loans over $100,000, at a cost of $2,500 to $10,000. That's enough to snuff an entire deal. One Pennsylvania entrepreneur needed $120,000 to build a pre-fabricated office building. The bank decided to make the loan, but FIRREA required a $3,500 appraisal. It was too much, and the customer walked.

Overall, the cost of compliance with bank regulations is $17 billion a year; small banks now spend one out of every four operating dollars on compliance. Leland Stenehjem, chairman of First International Bank and Trust, a small bank in North Dakota, has 39 employees, 13 of whom work nearly full-time on meeting regulations. "We used to have the philosophy that it was up to us to run the bank, to make the decisions, because we know the people in our town," says Stenehjem. "But more and more the decision is the examiner's, and all he's got is what's on paper."

Examiners who stick tightly to collateral rules even on the smallest deals are keeping bankers like Stenehjem from making loans based, in part, on the borrower's character—James Stewart, small town, *It's a Wonderful Life* kind of banking. Consider Herman Simpson, a Helena, Arkansas, man who, in 1992, came up with a great business idea: open a day care center for the elderly. Simpson got together with a friend and figured that they could get started for $40,000. ($40,000 may not sound like much, but Helena, Arkansas, is part of the Mississippi Delta, which Simpson rightly describes as "the most poorest area of the country.") The plan? Simpson and his partner would turn a building the partner already owned into a day care center, "plus a chore service which would help them with heavy cleaning and yard work and stuff, and also some homemaker stuff that the elderly need." They wrote a business plan and went down to Phillips County's First National Bank.

But the bank couldn't grant a loan because even though Simpson and his partner had good credit histories, their collateral did not quite meet the minimum standard. The bankers later told Congress in hearings on the small business credit crunch that what stopped First National was the fact that bank regulators would have "classified" the loan. (An adverse classification is a regulator's prediction that a given loan is bad and won't be repaid.)

Clinton understands this problem and has issued some deregulation orders, but five years of tight oversight has turned bankers—never the jazziest, boldest guys around anyway—into terrified automatons. "Banks are scared to death that their loans will be classified," says Ronald B. Cohen, a senior partner in a Cleveland accounting firm that specializes in company financing. "And when they train their loan officers, that reticence becomes embedded in the culture. Now, they have to make loans that look like cream-puff loans. The situation is if you make a loan that's classified—if you take a risk that you wouldn't have thought of as a risk five or six years ago—your job is in trouble. These are 24-year-old trainees assigned to small business loans. Or you get safe MBA-types dealing with entrepreneurs, which is a clash."

So where are banks putting their money? Government securities and bonds, not in enterprises like Simpson's. Beginning in the 1970s, the world's industrialized nations began meeting to regulate bank capital standards—that is, to decide how much money banks had to keep in the vault,

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no matter what the loan demand or the economic climate. This is a One World Government conspiracy lover's dream: Called the "Basel Committee" (after the Bank for International Settlements in Basel, Switzerland), regulators decided banks would have to keep 7.25 percent of the value of business and most consumer loans on hand. (It went up to 8 percent at the end of 1992.) That means, for example, that for a banker to lend $100,000 to an entrepreneur opening a store, the bank would have to have at least $8,000 in capital.

But the Basel Committee never agreed on a similar capital rule for government securities. This means banks, already culturally averse to risky loans, can buy government securities with less money in bank capital. The rate of return on securities is a bit lower than the return on successful commercial loans, but, as Richard C. Breeden, chairman of the SEC, and William M. Isaac, a former FDIC chairman, pointed out in *The Wall Street Journal*, bankers can buy more securities at less risk with less capital on hand. Not being fools, U.S. banks have increased their bond holdings by 68 percent since the Basel rules went into effect. By mid-1992, the FDIC could report that banks had 21 percent of their assets invested in government securities—the highest percentage in 20 years. At the same time, loan portfolios fell to 16 percent, their lowest point in a decade. Breeden and Isaac argue that if the accords had never made it out of the conference rooms in Switzerland, $130 billion in loans would have been made since 1992. That is money being spent on government paper that would be better spent on building Main Street businesses.

Venture Out

Maybe, you could argue, nobody's *asking* for commercial loans. You could argue this, but you would be wrong. Demand for loans, always higher during a recession, was even greater than usual in 1990-92. (Demand for the Small Business Administration's loan guaranty program was up 35 percent in 1992 from 1991.) Another sign that there is demand for credit is that while loans fell by $30 billion from 1989 to 1992, corporate bond issues—another form of credit—increased by $200 billion.

The next stop for entrepreneurs is professional venture capitalists, who raise money from pension funds and insurance companies to invest in new companies. But most of the 600 venture capital firms in the country deal with entrepreneurs who are already up and running, not people who really need the most help. Part of the reason for this is obvious. A successful startup ultimately needs expansion capital, and an expanding business is a safer bet than a guy fresh out of his garage workshop with dreams of shaking up the electronics industry. According to *Venture Economics*, a trade publication, expansion money accounted for fully 55 percent of all venture capital investments in 1992, while just 3 percent went to seed new ideas. Only 8 percent actually started up a business.

Take Tom Long, an entrepreneur from Wrightsville Beach, a seafront town on the North Carolina coast. In 1984, Long put everything he had—including maxing out his Visa and MasterCard for $9,000—into starting up a marine biology research company. Banks were out of the question; this was high technology, and there would be no inventory for collateral. Venture capital was an equally forlorn hope. "A New York venture capitalist flat out told me that a big reason he couldn't fund me was that he had to change planes in Charlotte just to get here," remembers Long. Long managed to open only after he put together a little over $100,000 from a dozen friends and relatives. In the ensuing 10 years, Long has employed 40 people, from a low of four in bad times to a high of 12 in better ones. "We've been on the edge a lot, but we've crept along and stayed in business," says Long, who has survived on research grants and private investors, and is now negotiating with several major pharmaceutical companies to sell them marine products for anti-cancer drugs and infant formula. Would more capital earlier on have produced quicker results, more jobs, more money, more taxes paid? Impossible to say, of course, but it is undeniable that the early stage companies which do luck into venture capital have a much better chance of making it.

The few deals that do attract venture capital are almost always decided by two factors that do not necessarily favor startups. The first is that venture capital, an industry founded to keep an eye out for the promising small deal, now tends to fund companies that have already basically made it. "Our money comes from very conservative institutions—pension funds and insurers," says David Gladstone, a general partner with Allied Capital in

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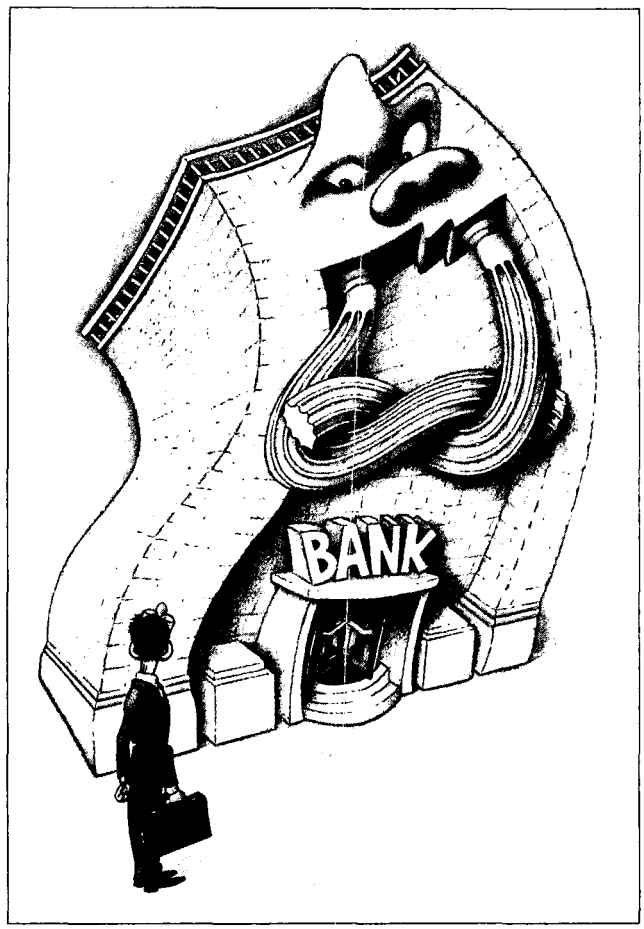
Washington. "They have turned off the spigot for startups because the alternatives—especially public offerings—are so lucrative." Public stock offerings are where early investors cash out, selling their stock shares to public buyers at (hopefully) great profit. In other words, venture capital invested at the initial public offering comes long after the trials of starting out. Of course, funding expansions, which is where the most jobs are actually created, is a good thing, and finding sound startups is one of the most difficult tasks any investor faces. But logic dictates that fewer startups funded now mean less expansion or fewer stock deals later. "There's no question we're eating our seedcorn," says Gladstone. "No question at all."



Greg Williams

Day-to-day working reality makes it easier for a big venture capital firm to consider a few $5 million or $10 million proposals—usually, these are high tech ventures which require expensive technology—than 100 proposals for $100,000. Allied, known in the industry as a good place for the small deal, only does about 5 percent of its business with startups; that translates into one or two from-scratch deals a year. And that's from a *good* place for entrepreneurs. "There just aren't enough people to look seriously at most startups," says James Lally, a partner with the San Francisco-based firm Kleiner, Perkins. "Your average venture capitalist has six deals going and can't spend enough time evaluating what else comes in."

The second factor hamstringing smaller entrepreneurs is, as Tom Long found, geography. If you are looking for capital within a 40-mile radius of, say, Boston, New York, Chicago, or Silicon Valley, you stand a far better chance of getting funded than you do in Nebraska or even Atlanta. (In fact, although the 11 states of the old Confederacy have the nation's fastest-growing population, they are dead last in venture capital. Just 3 percent of the nation's capital is available there, compared to 48 percent in New England and 27 percent on the West Coast.)

Capital Gains

One solution is to use government to make the market as open to entrepreneurs as possible. Fixing the counterproductive Basel requirements is the first step. The administration's plan for small business is a grab bag of good ideas (guaranteeing more Small Business Administration loans, for example) to free up more capital. And there are other ways for Washington and for states to weigh in.

The fruit of that old 1958 Fed report was the Small Business Investment Corporations (SBICs), which were designed to provide equity capital to entrepreneurs. There have been 1,300 SBICs since 1958, but nearly 1,000 have closed, at a potential cost to the government of $500 million. ("As W. C. Fields used to say," notes Senator Dale Bumpers, "'That ain't beanbag.'") This is unquestionably a difficult business, even for private firms. But SBICs did happen to invest in Apple Computer and Federal Express (both of which began as tiny, unfunded, improbable ideas), so they have accomplished clear good. The SBA's loan guaranty program currently secures $8.5 billion in small loans. It works pretty

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well, allowing banks to take risks they would not take on their own, and the default rate is only marginally higher than regular commercial defaults. The SBA's new director, Erskine Bowles, is a businessman from North Carolina who knows what obstacles are out there. (Bowles is a welcome departure from the Reagan-Bush directors, who tended to be failed GOP Senate candidates.) However, remember the federal government controls only about $10 billion in venture capital altogether and invests in only one out of every 1,000 small business startups every year.

That means government must unleash the private market's resources. Now making its way through Congress is a tiny $50 million authorization to federalize a Michigan pilot called the Capital Access Program (CAP). This is the most promising proposal in the country. Under it, instead of regulators weighing each bank loan by itself, they would consider a portfolio of loans. That is, rather than a First National having to judge a Herman Simpson in isolation, riskier loans would be part of a package on which the bank would be examined. So a stronger loan—say $100,000 to expand an up-and-running business—would make it easier to take marginal risks. To cover the risk, the bank, the borrower, and the government pay a small percentage—between 1.5 to 3.5 percent—of the loan amount into a reserve fund. This way, the bank avoids individual classifications.

In Michigan (13 other states have followed), 21 percent of the CAP loans have gone to startups—compared, remember, to less than 5 percent of private venture capital. The failure rate has run about five times a normal bank loss rate—which is to be expected, considering the higher risk. The kneejerk conservative response to this is to conclude government simply cannot work and should stay out of the market altogether. But that's the wrong way to look at the problem. The possibility of losing even a few billion dollars, at a time when so many people are out of work means anything we can do to responsibly increase the flow of capital makes sense.

And the CAP is hardly a giveaway program. The reserve funds cover the losses and banks must still be shrewd since they are responsible for losses above the 14 percent the reserve fund covers. Because existing regulators would oversee the federal program, bureaucratic costs would be minimal. In Michigan, the state government added just a single person to its payroll for the CAP. And why not, in addition, keep track of a bank's pay-up rate and ease back on regulatory second-guessing in proportion to how well customers pay back the loans? That way, banks making smart loans—based on whatever criteria, including character—that are paid back are rewarded with more leeway to keep making such loans. This would replace the current rigidity with the more familiar, Jimmy Stewart kinds of lending decisions. Because bankers who either abuse this or are unlucky would be punished by having to continue to live under obsessive regulatory scrutiny, bank security would be protected.

According to a 1993 study by the Tax Foundation, reported by *The New York Times* in January, complying with federal tax law—filing the 1120 and 1120S corporate returns, quarterly reports, and legions of other documents—costs small businesses $390 for every $100 they pay in taxes. Looked at another way, Washington got $4.1 billion from these businesses in 1990, but the businesses spent $15.9 billion filling out the forms. That's crazy. The IRS has already simplified tax returns and requirements for individuals who make little or no money; it should do the same for businesses that are losing money or barely breaking even. Most small businesses turn very little profit; the government should think about having a business owner, under penalty of perjury, certify whether his year was profitable and, if it wasn't, shelter him from most of the blizzard of forms now required. Random audits could ensure compliance, because locking up a few lying owners would scare the rest into honesty.

Capital gains tax cuts can seem a pallid answer to economic problems—recall how tinny the idea sounded on George Bush's lips in 1992—but targeted cuts to stocks in startup companies held over time would encourage the right kinds of investments. If you knew, for example, that you would have to pay higher taxes on short-term deals, then deals with low or no capital gains tax would immediately become more appealing. This rewards real investment, not just asset-shuffling. A version of this idea—backed by Clinton and Bumpers—passed in 1993: small business stock sold after five years pays half the going capital gains tax rate—currently, half of 28 percent. The real re-

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form would be to charge the usual top income rates on short-term deals where the trader's goal is clearly quick paper profits, not a company's long-term prospects. If someone has to pay the 39 percent rate on stock trading that he pays on ordinary income, he will be encouraged to invest in the startup stocks, whose capital gains rate after five years could be dropped to zero percent. The jobs and products that would inevitably shake out of a busier startup market are what we want, and tax revenue will still be coming in from the sale of established stocks at the ordinary income rate. After all, the more jobs generated, the better the economy in the long run, and tax breaks do work. (An example, close to home: In the case of *The Washington Monthly*, its founder, Charles Peters, raised only $47,500 before a tax attorney figured a break that would enable investors to write off the investment. After that, Peters raised between $600,000 and $700,000, meaning that less than 10 percent of the magazine's financing came in the absence of a break. While the *Monthly* has not exactly enjoyed great prosperity, the result has been 25 years of steady employment and production: 200 man-years of jobs, as the economists put it. The Clinton/Bumpers capital gains break, carried a step farther, could make the same kind of investments in small enterprises more attractive.)

Beyond fixing capital gains, Washington needs to recognize that the growing tax burden on the employer-employee relationship is no longer just a conservative hobbyhorse. The United States funds its retirement and health care on the backs of employers and employees, and the Clinton health plan proposes to pay for universal care by attaching another tax (the administration calls it a "premium") to the payroll. With benefits already costing 33 percent of salary packages, it's past time to consider funding at least health care with a broader, national tax.

Taxation and capital access programs are not exactly rousing issues; they're the guts of governing. But the people hunting money—and they are legion—will remember which president and which Congress made the money chase a bit easier. And the more those people get money and create jobs, the better off we all will be. □

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Who's Who

"Old CW: Canny, candid, can-do," egan a recent item about **Janet .eno** in *Newsweek*'s Conventional /isdom Watch column that end- d with these unhappy tidings or the Attorney General: New CW: Soft, spacey, slip- nod."

Reno's swift descent rom stardom has, we ear, left her with a case f badly shattered erves. During a recent adio interview, a reliable ource tells us, she was lit- rally tearing the skin from er fingers as she struggled to nswer questions. . . .

Another cabinet member whose eputation, currently at its height, nay also soon be headed south is ecretary of Energy **Hazel)'Leary**, whose willingness to wn up to her department's adiation experiments has een widely admired. The eal credit for ex- osing the scandal elongs to **Eileen Velsome**, a re- porter for the *Albu- uerque Tribune*. Except for her splendid esponse to Welsome's story, O'Leary, we re told by insiders, has otherwise had an ndistinguished reign at Energy. . . .

The two most vulnerable senators in his year's elections are, according to *Roll Call*, Chuck Robb, because of scandals in his personal ife and the unremitting enmity of **Douglas Wilder**, nd **Kay Bailey Hutchison**, because of her "legal roubles and lightweight reputation." She has sur- vived the former after her February acquittal, but he latter may not be so easily overcome.

Also in the congressional elections, *Roll Call* says New Jersey Assembly Speaker **Garabed Haytaian** should be the GOP's choice to oppose **Frank Laut- enberg**. In Pennsylvania, **Rep. Rick Santorum** is fa- vored to be the Republican nominee against **Harris Wofford** even though—or maybe because—**Ed Rollins** has signed on as a consultant to one of Santo- um's primary opponents. . . .

Dee Dee Myers is said not to be among **David Gergen**'s most fervent admirers. The same was true of **Larry Speakes**, who was press secretary while Gergen worked in **Ronald Reagan**'s White House. Speakes used to delight in lower- ing the speaker's stand in the briefing room so as to make Gergen look more like a gi- raffe. . . .

If your dream is to be ambassador to Aus- tria or the Netherlands, you've got to salt away a lot more than those nickels and dimes you've been putting in the piggy bank. **K. Terry Dornbush** had to give the Democrats $253,750 to get to skate with the **Hans Brinkers**. And waltzing in Vienna cost **Swanee Hunt** $328,700. How, you may ask, did **Pamela Harriman** get Paris for only $130,902? If you're charitable, it's because she speaks French. If you're cynical, it's because her personal contributions pale beside the millions she has brought to the party as a dedicated Democratic fundraiser. . . .

As you can see from the items in this column, there is plenty of discouraging news about the ad- ministration these days. But a wise old friend of **Who's Who** has this advice for **Bill Clinton**: "Whitewater and the sex scandals are going to be a continuing embarrassment. But the secret to over- coming them is not to cover up but to concentrate on being a good president." **Hillary Clinton** and the other Clintonites also have to realize, our friend adds, that the best way to help the president is not to stonewall but to cooperate and get on with the ad- ministration's work. . . .

—*Susan Threadgill*

Roman Genn

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Tidbits & Outrages

"NURSE, PLEASE WRITE A LETTER TO THE OPERATING ROOM ABOUT THIS PATIENT'S HEMORRHAGING CHEST WOUND."

In Pine Ridge, South Dakota, a new $20 million hospital was all set to open when administrators discovered that they had forgotten to include telephones. The hospital director explained that officials overseeing the new construction had become "distracted."

GIVING THE PEOPLE WHAT THEY WANT

With five years still to go in his present term, Oregon Senator Bob Packwood no longer maintains a residence in Oregon.

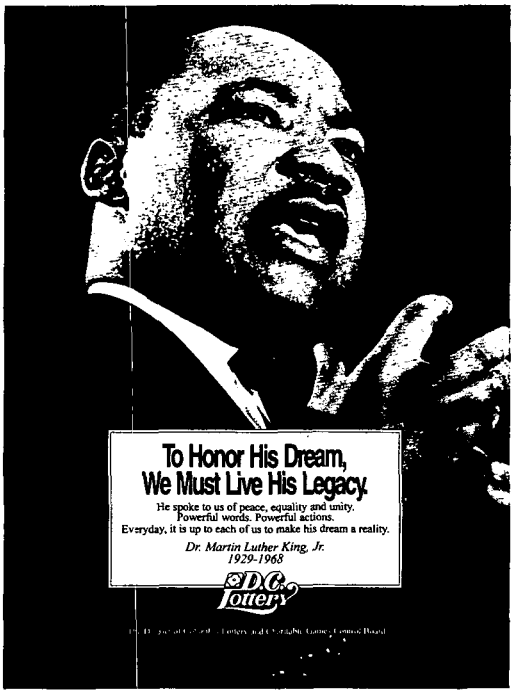
SPORTSWRITER ELEVATED TO WHITE HOUSE BEAT.

On April 1, 1993, Chris Dufresne wrote this in the sports section of the *Los Angeles Times* about pitcher Nolan Ryan: "I'm glad you hung around long enough to tip your cap one last time around the league. . . I would not even follow baseball closely if not for the fact a 46-year-old. . . is still pitching." But on September 25, 1993, after Ryan suffered a career-ending injury during a game, Dufresne wrote, "Nolan Ryan should not have returned in 1993."

IT'S GOING TO BE CALLED "GET OFF MY BACK!"

A Beverly Hills production company is trying to get investors for a play about the life of Roy Rogers and Dale Evans told from the point of view of their horse, Trigger.

I HAD A DREAM, SO I PLAYED 'PICK 4'



—Scott Shuger

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Critical Lessons From the Health Reform Front

The Monthly *offers concrete principles that would guarantee everyone, rich and poor, the same high quality care*

BY THE EDITORS

Deep in one of the two most prominent health care plans in Washington, there is a single clause which dramatizes what's terribly wrong with the debate over how the country will reform its $1 trillion medical system. The Clinton administration's bill and its chief Democratic rival, sponsored by Tennessee Rep. Jim Cooper, both allow states to experiment with their health care any way they choose—try some of Clinton, a little of Cooper, a dash of Chafee. But the Cooper plan (the one which seems to be picking up steam) makes an enormous, mind-boggling exception: States cannot—*cannot*—experiment with a single-payer plan like the one now operating in Canada.

What is so frightening to Washington policy makers about even discussing how the Canadian plan might be a model for the American health care renovation? Could it be that the political culture, constrained as it is by fear of reform that would mean the near-abolition of the health insurance industry, is afraid people might *like* single payer if they saw it at work here?

We think that is a strong possibility. The press feeds this aversion to reform, too. For example, although stories of universal, cost-controlled systems which are experiencing even slight problems regularly win front-page display, good news about major health reform is buried. When the 60,000-member American College of Surgeons (whose members' median income is $244,600 and who have the most to lose personally if reform passes and fees are capped) unexpectedly endorsed single payer in February, arguing it would preserve a patient's right to choose his doctor, cut bureaucracy more than any other proposal, and allow doctors to make their own medical decisions, *The New York Times* ran the story on page A24. *The Washington Post* published it on page A8.

Right now, Washington is engaged in one of its classic tribal dances, spinning and counter-spinning while the country awaits action. In fact, the clever thing to say in the capital this season was that there is no health care crisis in America. What began as a Republican strategy was picked up in January by Daniel Patrick Moynihan, who struck the pose on NBC's "Meet the Press." This counterintuitive line sounds wise, above the masses: *We've done some checking, and it turns out all you deluded people worried about your insurance or paying your bills are all wrong.* Not coincidentally, it also absolves lawmakers from making tough decisions and saves journalists from having to master a complicated issue.

But the "no-crisis" stance is dangerously wrong. Consider that the U.S. annually spends an astonishing 14 percent of GDP on health care while other advanced nations spend 10 percent or less. Spending billions more, we still leave 15 percent of the population—37 million Americans—without insurance, millions more underinsured, and yet more millions in fear of losing coverage.

The Clintons deserve generous credit for taking on health reform. While we have grave objections to the administration's plan, we do not believe the Clintons deserve the battering they have taken for trying to produce universal coverage. In January, for example, a *New Republic* cover story entitled "No Exit" by Elizabeth McCaughey eviscerated the Clinton plan and did a hit-and-run on Canada but failed to offer an alternative that

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would provide universal coverage, saying only "Congress also should consider ways to provide insurance for those who cannot afford it. . . " In the issue which followed the article's publication, Michael Kinsley called it a "screed," and Ted Marmor and Jerry Mashaw, two Yale professors, wrote "virtually none of [McCaughey's] stark claims is indisputably correct." Yet the damage was done; the piece joined the Republicans and Moynihan in bombarding an administration that is at least trying to solve problems that rival plans ignore. Cooper, for instance, merely guarantees "universal access" to coverage—which means if you have money, you can buy coverage. That's the system we have now which leaves so many people out in the cold.

In the following article, Susan FitzGerald and Mark Jaffe of the *Philadelphia Inquirer* offer first-hand reporting on the two countries most similar to ours that have successfully reformed their health systems: Canada and Germany. These countries have both controlled costs and guaranteed equal treatment for rich, middle class, and poor alike.

How these systems work convinces us that the U.S. should adapt the principles that operate well in other systems and jettison those that don't. Whatever the other two systems' failings, it is essential to remember how much better they are than ours *even with their problems*. It is important to realize, too, that neither the Canadian nor German system need be carbon-copied [see "Socialized Medicine Now—Without the Wait," Nancy Watzman, October 1991]. We *can* work out the kinks and have national health care without waiting. The Congressional Budget Office (CBO) says single payer would provide universal coverage and still save an additional $14 billion a year. The General Accounting Office points out that with the equipment the U.S. already has, we could still provide high-tech treatments for everyone without resorting to waiting lines.

Of all the caricatures that haunt the American debate now, the worst may be that getting good health care in a system like Canada's or Germany's is only slightly more likely than getting good service from a U.S. postal clerk. Until we bust our mental blocks on this, we won't get the reform all Americans should want: the best possible care available equally to everyone, no matter how rich or poor. Canada and Germany are not utopias, but they have much to teach us.

Take the most obvious possible complaint with the Canadian system: That a patient not in dire medical straits might have to wait for a hospital bed and full treatment. You will read about a woman, Joan Evans, who comfortably rests in the emergency room in just such a situation. She doesn't mind waiting; she could go to other hospitals where she would have no delay. (And of course, emergency patients have to wait in the U.S., too.)

But then consider Armand Jelilyan, a 33-year-old accountant who went to his doctor in Canada with "a cough that just wouldn't go away." As recounted by the *Inquirer* reporters in their 1993 book, *Hard Choices: Health Care at What Cost?*, the doctor found lumps in Jelilyan's neck and immediately sent him for an X-ray and ultrasound. The next day, he was sent to a cancer specialist, who performed a biopsy. (A second biopsy was done the following week.) Jelilyan also had a CAT scan, a bone marrow test, and a dye scan to test for cancer. He had Hodgkins' disease. In the chemotherapy treatment that followed, he faced no delays.

To be sure, some patients do face a wait for a specific treatment. But 95 percent of Canadians report receiving the treatment they need within 24 hours, and deciding whether treatment is necessary is based on medical priority, not whether a patient can pay. In our country, uninsured people can go without care and even those with insurance sometimes go broke paying for treatments.

The key elements of reform are eliminating insurance bureaucracies and capping medical fees. Germany depends on nonprofit insurance companies, which have recently been prone to some bureaucratic logjams despite the system's overall low administrative costs. The *Monthly* favors the single-payer Canadian principle, because it both controls costs and paperwork. Most American doctors, however, have not gone the way of the College of Surgeons but instead instinctively oppose national health care because it would slow the growth of their salaries. But hold the pity: In the U.S., the average income for all doctors is $171,000; in Canada, a not-so-paltry $102,000; in Germany, $80,000. So even if physicians' pay were to slow to the Canadian rate, American doctors would still be making five times the average U.S. worker's wage. Another source of rising costs is expensive tests and procedures that specialists love. Canada and Germany have five to six times the number of family doctors per 100,000 people that the U.S. has, a fact which cuts down the volume of marginal tests and procedures.

But doctors are not the only obstacle to reform. To have single payer means largely dismantling the

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health insurance industry. As Tom Hamburger and Ted Marmor have described in these pages, politicians, journalists, and experts fear such a bold move precisely because it is a bold move [See "Dead on Arrival," September 1993]. There are insurance agents in every Rotary Club in every congressional district, and most politicians instinctively fear doing away with such a large institution—even if the vast majority of Americans would benefit from the resulting reform. Of course, single payer would throw many people in the health industry out of work. But the money we now spend on paperwork and bureaucrats—$100 billion is the CBO's estimate—will be freed up to be spent in other, more productive ways, including investments that will create new jobs.

One of the clearest examples of the fear of taking on such a huge task came when the Clintons unsuccessfully tried to avoid a fight with health insurers by leaving them in place and by financing the plan with "premiums" to avoid the dreaded word "taxes." (The cave didn't work; the insurers are still fighting the plan.) The unfortunate result of payroll financing is that it puts the weight of health care on the already-overburdened employer/employee relationship. Although Germany uses an employer/employee tax, Canada's system is financed by income, sales, and property taxes.

We believe Canada's financing method is better. Why? Because the lighter the burden directly put on the employer/employee relationship, the better the chances that paying for health care for all will not be a disincentive to employment. Income taxes spread the burden more equitably to provide what should, in truth, be a right as basic as fire or police protection.

On cost control, Canada and Germany mandate how much money can be spent annually on medical care and then leave it up to doctors and hospitals to decide how that money is spent. But the Clintons did not go this proven route. Instead, the primary means by which the Clintons control medical costs is not by limiting overall spending but by capping what *insurers* may charge for coverage. This is a disaster in the making: U.S. doctors and hospitals can continue to charge what they want and private insurers will be in the position, as they are now, to decide what to pay for. (In single payer, as the College of Surgeons recognizes, fees are capped but doctors, not insurance bureaucrats, have the power to decide which patient gets which treatment.)

Will all this control rising medical costs? Probably not. Clinton presumes insurance plans will compete to provide services more cheaply and that people will then choose to enter less expensive plans. But under Clinton's proposal and under Cooper's, spending more buys you more options, especially more leeway to choose doctors and hospitals.

The possible result? The rich will be able to buy more and better coverage, so money will continue to flow into the system, naturally driving up costs. Successful employers will be under pressure from employees to buy the best possible care; struggling employers will stick their employees in minimal plans with the poor who can't afford more coverage. Congress has already reserved the right to purchase extra coverage; so have federal employees, including the White House staff. So no one in power will have a personal stake in making sure the basic package is adequate, and that should make everyone deeply skeptical. For if official Washington declines to join the rest of the country, oversight will not be what it should be.

Let the well-off have the right—as they do in Canada—to pay for private rooms, televisions, and other amenities. But they should not have the right to buy better *medical* care. Both Canadian and German hospitals operate as nonprofits—a status that some American charities and hospitals have abused with excessive executive perks. Vigilance over nonprofits is essential, for efficient, honest nonprofit organizations could be the most effective instruments for getting the work of government done.

The features of successful reform—limiting doctors' compensation and compelling all doctors to participate—have worked before in American medicine. During World War II and Vietnam, drafting doctors and having them work under a budget and for ordinary salaries—they made just what other officers made—gave us the best, most efficient, and democratic medicine we have known. Nobody asked a sick GI whether he had insurance; he got the same high quality care as an Eisenhower or a Westmoreland, all under the broad authority of a democratic government. (In fact, the Vietnam work was so good that it revolutionized civilian emergency medicine.) The free market has never done so well.

Note the features that worked: fixed compensation, universal access, and broad government supervision. We still believe that it is not too late to learn from other countries and from our own wartime experiences how to wrestle rising costs sucessfully and cover all citizens equally. □

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What Hillary Could Learn from Canada and Germany

For less money, they cover more people and they make people happier. So why not take a cue from those countries that have made the hard choices that make national health care work?

BY SUSAN FITZGERALD AND MARK JAFFE

Josefa Hägel was resting comfortably in a bed at Schwabing Hospital in Munich. She had been there for nearly two weeks, but tomorrow she would go home.

The 92-year-old Hägel had been rushed to the hospital with the classic signs of a heart attack—shortness of breath and chest pains. But days of tests and monitoring revealed no serious problem. Hägel, a sprightly woman with gray hair and sparkling gray eyes, had spent her time at Schwabing, the oldest of Munich's municipal hospitals, in an austere, semi-private room with well-worn furnishings and no telephone or television.

Even so, as far as Hägel was concerned, Schwabing had served her well. The room was spotless. The medical staff had been attentive. "The doctors take the time to sit down and talk to you," she told an American visitor. And now she was well and going home. Her bill for the two-week hospital stay would be $112—an $8-a-day insurance co-payment. The remainder of her charges—about $4,100—would be paid by Hägel's insurer, the Allgemeine Ortskrankenkasse, or AOK.

The AOK is the largest of the 1,200 non-profit, payroll-financed "sickness funds" that comprehensively cover the health care of more than 90 percent of Germany's residents. The system was created in 1883 by Otto von Bismarck, and the AOK was already 18 years old when Josefa Hägel was born. Through World War I, the Weimar Republic, the rise of Hitler, World War II, and the post-war economic boom, AOK was there to pay Hägel's bills. Through the birth of her children, three operations, and the death of her husband, AOK picked up the tab. "It always covered what was necessary," she said, surprised at a question about health insurance. "I've never had a problem. I've never thought about it."

Across the Atlantic, Joan Evans, a woman in a white, flowered nightgown, had been lying in Toronto's busiest emergency room for more than twelve hours after injuring her head in a

Susan FitzGerald and Mark Jaffe are reporters for the Philadelphia Inquirer. *They are the authors, with Donald Drake, of* Hard Choices: Health Care at What Cost? *(Andrews & McMeel, 1993).*

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fall. But since all of North York General's beds were filled, Evans had to bide her time until a room opened up.

She wasn't alone. All but two of the room's 19 curtained examining cubicles were filled. Four more patients lay in beds along the wall. And seven others, Joan Evans among them, were in a cluster of beds behind the nurses' station.

This happens a lot at North York, which is forced to strike a delicate balance nearly every day between patient demand and available resources. But Canadians are willing to put up with some inconveniences to pay for the comprehensive care they are guaranteed.

This was certainly true of patients in North York's emergency room this morning. Many were dozing. Some lay propped on pillows, reading magazines or books. One woman was knitting. An American reporter wandered from bed to bed, interviewing patients about the Canadian health-care system. When the reporter came near Joan Evans, she blurted out: "We don't have socialized medicine. We have social responsibility."

Although she'd been waiting, Evans was here by choice. Under Canada's system, she could go to any hospital she chose. And many of the other hospitals probably had room, because on a given day, Toronto has 1,000 empty hospital beds. But Evans liked North York. She'd been here before, and this was where her doctor practiced.

Under Canada's tax-financed, single-payer system, Evans' red-and-white plastic card from the Ontario Health Insurance Plan entitled her to full medical treatment. She knew she would get good care and that if she had to wait for a bed behind a more serious case, the decision would be made on medical, not economic, grounds.

Josefa Hägel and Joan Evans were deeply satisfied with their care. Surveys consistently find greater satisfaction among patients and doctors in Canada and Germany than in the United States. In those countries, health care is, as Princeton health economist Uwe Reinhardt says, "part of the cement of society."

This is not by chance. Both countries have consciously decided health care is a universal, public good. People who are poor receive the same high quality of care as people who are well off, and while the well off are able to buy amenities—a private room, television, a telephone—everyone is treated the same medically, treated well, and is certain that this equal treatment will be there.

"We see people having equitable access to affordable and appropriate health care regardless of geography, income, age, gender," said an Ontario Ministry of Health annual report. And,

Peter Kuper

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"In Germany, we operate under the social solidarity principle," explained Johann Fann, a top executive with the Bavarian AOK. "The rich pay for the poor, the young for the old, the well for the sick." Although both Canada and Germany are market-based economies, they have taken health care largely out of the marketplace. Unlike England, they do not have socialized medicine. The government controls overall spending, but hospitals and doctors operate independently of the government.

The Clinton administration says it wants the same goal, but it has proposed a radically different path for American medicine—a path that does not eschew the market but in fact embraces it. This is a risky exercise, for many of the problems that beset American medicine today—inferior care for the poor, spiraling costs, problems with insurance and bureaucracy—are products of market medicine. And remember that, compared to the U.S., Canada spends a third less per capita on health care and Germany spends 42 percent less. Yet both nations cover everyone for just about everything at high levels of quality.

Although President Clinton's 1,300-page Health Security Act promises to "ensure individual and family security through health care coverage for all Americans," as you plow through the bill, with its cost-sharing options and rules on marketing, profit incentives, and even advertising, Clinton-style health care sounds a lot less like a public good and a lot more like a market commodity. Indeed, under the Clinton plan, people who need medical care aren't "patients." They're "consumers."

This dependence on the marketplace is, of course, by design. Using the largely untested theory of managed competition, the administration hopes to make the United States the first country in the world to provide universal health care using market mechanisms. While this may be uniquely American—the market, after all, has served us well in so many other ways—it does create a kind of policy schizophrenia.

For the market is not built to promote equity. In the market, "money talks" and "you get what you pay for." Those who want more and can afford more, get more. The market's purpose is to generate profits and provide goods on demand. Applied to medicine, this, in part, is why Americans have more heart bypass surgeries, hysterectomies, and cataract operations than any people on the planet. It's the reason we have more high priced technology, such as magnetic resonance imaging machines and cardiac catheterization labs, than any other country. It's why, until the real possibility of genuine reform reared its head recently, some of the hottest stocks on Wall Street had been those of health-related companies.

But in the market, those who can't afford more get less. Despite spending nearly $1 trillion annually on health care, 37 million Americans are uninsured and an equally large number are underinsured or fear losing what coverage they do have. So it's worth examining how Canada and Germany turn the ideal of equitable, universal care into a working, day-to-day reality for their people—the very thing Clinton says he wants to do.

Although these systems wrestle with the same economic and medical pressures faced by American medicine, their annual limits on spending help keep costs from growing uncontrollably. And because what money is spent is allocated through direct negotiations with hospitals and physicians' associations, the people closest to the systems have a strong voice in how they are run. To be sure, these overall caps also mean that Canadians sometimes must wait for non-life-threatening procedures like hip replacements, German doctors' fees are cut if they bill too much, and the purchase of new technology is parsimonious and its use limited. You can see all of these things in the operating rooms, wards, and doctors' offices of Schwabing and North York General. You can see the difficult decisions and trade-offs Canada and Germany are willing to make in order to guarantee their citizens the best possible care regardless of their income.

The Doctor Will See You. . . Later

To Americans who detest even a short wait at the deli counter, queuing—waiting—for medical care is synonymous with rationing. And yet a policy of "no waiting"—in other words, what Americans with access to care generally have now—creates another economic dilemma. "If your queues are too long, you don't have

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enough resources. If you have no queues, you have an excess of resources," says C. David Naylor, a researcher at Sunnybrook Health Center in Toronto.

In the foreign systems, the responsibility for evaluating patients rests solely in the hands of doctors, who must decide who receives treatment immediately and who will wait. In Ontario, for instance, non-emergency waits for coronary bypasses can last up to three months. In the United States, non-emergency bypass surgery can usually be arranged in one day to two weeks. But there is no evidence that heart patients fare any better in America than they do in Canada.

Any health care system ultimately comes down to the doctor and the patient. In Germany and Canada, there's considerable freedom for both. Doctors trade off working under a budget for the power to manage what resources there are. And patients are completely free to choose doctors and change doctors as often as they like.

A 1993 University of Sherbrooke, Quebec, study published in the *New England Journal of Medicine* found that American doctors were more apt to admit a patient with chest pains to the intensive care unit, more likely to prescribe drugs, and more likely to order X-ray angiography to look for clogged arteries. The study also found that U.S. heart attack victims were three times more likely than Canadians to be operated on.

Yet despite the less aggressive treatment, Canadian heart patients *were no more likely to die or suffer a second heart attack than their U.S. counterparts*. The only disadvantage was that the Canadians had a slightly greater chance of experiencing chest pains.

In fact, a 1987 Rand study found that 17 to 35 percent of American bypasses might be unnecessary. Still, the number of Americans receiving bypass surgery doubled during the 1980s to 265,000 in 1991. The explosion may have been spurred by the market as well as by medical need; heart bypasses are extremely lucrative. Indeed, fully one-quarter of all U.S. hospital revenues come from cardiac-related business. Of that, more than 80 percent comes from four procedures—cardiac catheterization, angioplasty, bypass surgery, and heart valve surgery, according to the Advisory Board Company, a Washington-based consulting firm. A financial officer at Philadelphia's Lankenau Hospital—one of the area's leaders in bypass surgery—describes the procedure as an economic "winner."

In Canada and Germany, budget caps and uniform insurance coverage remove any question of financial incentive for prescribing surgery. For example, Bernard S. Goldman, the chief of cardiovascular surgery at Canada's Sunnybrook Hospital, had a budget in 1992 to do 635 bypass operations. There was little doubt that he would find enough candidates. His only objective was to start with the most serious cases and work his way toward the least serious. Goldman sees no problem or crisis in this approach. "Hysteria is built into the U.S. system with patients being rushed into surgery," he says. And the numbers back him up.

German Engineering

It was only lunchtime, but Katherine Neubach, a family doctor in the Munich suburb of Neuaubing, had already seen 32 patients for ailments such as the flu, high blood pressure, and pancreatitis. But her day was far from over.

At noon, she drove her blue Volkswagen Rabbit to the apartment of a patient who was too sick to go to a nearby oncologist for a chemotherapy appointment. The patient, a middle-aged woman with bowel cancer, was

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bedridden with nausea and diarrhea. Hooking a coat hanger to a chandelier, Neubach hung plastic bags of saline solution to begin the intravenous treatment the oncologist had prescribed. Neubach made sure the patient was comfortable and told her she'd be back later that day. If needed, she'd give the woman a shot of morphine.

Such house calls are part and parcel of Neubach's job as a primary care physician. In Germany, the family doctor is always the first stop and the key player in health care. "The goal," Neubach explains, "is for someone to be responsible for the patient." As a gatekeeper to the entire German health care system, it is also her responsibility to use its resources wisely. Her own prosperity depends on it.

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The World Health Organization says the well-being of a nation and the effectiveness of its health care system can be measured, in part, by the health of the babies it brings into the world. By that measure, Canada and Germany are far better off than the United States.

When the countries are ranked by the number of babies who survive their first year, Canada comes in ninth. Germany is 15th. The United States ranks 23rd.

Whether a baby is born healthy depends a lot on the quality of medical care the mother gets during pregnancy. In that regard, the United States again has a dismal record.

Nearly one in three American women do not get adequate prenatal care. Some pregnant women never see a doctor until they arrive at the hospital in labor. Because so many American women don't get good prenatal care, more sickly, premature, and low-birthweight babies are born in the United States than in any other industrialized nation. There are enormous social and economic costs.

These tiny babies are 40 times more likely

From Hard Choices: Health Care at What Cost?, *by Donald Drake, Susan FitzGerald, and Mark Jaffe of the* Philadelphia Inquirer *(Andrews & McMeel, 1993).*

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"The KV monitors pharmaceutical use, hospital use, the number of cases," Neubach says, "and it can call an audit at any time." Still, because it's a professional society run solely by doctors, there's far less of the frustration American doctors feel when dealing with insurance companies or Medicare and Medicaid. Physicians do not have to worry about insurance company "pre-approval" or "utilization reviews" as they must in the United States.

To maximize her salary as much as the system allows, Neubach sees as many patients as she can, refers as few as possible to specialists, and provides additional services like house calls. (Neubach's income last year was about $136,000.) The sickness funds pay doctors a meager $5 for a routine office visit. That is why Neubach tends to dispatch minor complaints like sore throats and ear infections in five to 10 minutes. But her patients don't seem to mind the quick treatment. In part that's because when they need Neubach to make a house call, she makes it. And in part it's because on average Germans see their doctors about 11 times a year —twice as often as Americans. That Germans pay nothing out of pocket for an office visit may also help to keep satisfaction levels high.

Any health care system ultimately comes down to the basic relationship between doctor and patient. So it is noteworthy that in Germany and Canada there is considerable freedom for both. For doctors, the trade-off for working under limited budgets is the power to manage what resources there are. Patients in both Ger-

By outperforming us on infant care, Germany and Canada reveal America's health care deficiencies at their worst

Despite overwhelming evidence that prenatal care makes a big difference, the United States has no public policy to ensure that all pregnant women will get it.

To the contrary, financial barriers often work against a woman's best intentions. This is especially so for the 555,000 women who give birth each year without insurance. These women account for about one in every seven births. Private physicians often won't take them as patients unless they pay hundreds of dollars up front.

A 1993 study in the *Journal of the American Medical Association* reported that women with no health coverage were 2 1/2 times more likely than privately insured women to postpone care until the end of pregnancy. They were six times more likely to get no medical care at all. Even women whose maternity costs are paid by Medicaid may have trouble finding a doctor, because obstetricians complain they don't get reimbursed enough to take those women as patients.

Such problems do not exist in Canada and Germany. Universal health coverage and standard reimbursement rates for doctors make it rare that a pregnant woman goes without regular checkups.

In Germany, "there is simply never a question of whether a pregnant woman has easy access to care she needs, and there is never a question of proof of payment for those services," said Dr. C. Arden Miller, a pediatrician and professor at the University of North Carolina, who has studied maternity care in 10 European countries.

His study of Germany found that 98 percent of pregnant women arrive at the hospital with their *Mutterpass* at the time of delivery. The 32-page booklet, designed by the physicians and insurance funds in 1985, becomes a record for all the exams and tests a woman gets, including at least 10 prenatal visits, two ultrasound scans and any necessary lab work.

In Canada, even immigrant women, often poor and coping with language difficulties, rarely miss prenatal care.

Dr. Dennis Xuereb, a North York obstetrician, said his waiting room was evidence of the single standard of care that exists for every woman—regardless of income or status.

"We have Somalian refugees. We have Sri Lankan refugees. We have Chinese refugees. We have lawyers, engineers, we have every cross-section you can imagine," Xuereb said. "Every single patient is treated the same way and has the right to the same care." □

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many and Canada have complete freedom to choose doctors and to change doctors as often as they like. So while Neubach, for example, decides what services her patients get and whether they see specialists, she must be sensitive to their wishes. If her patients are dissatisfied, they can simply go to another doctor.

In Canada, the family doctor plays a similar role. Canada's Royal College of Physicians and Surgeons has adopted a policy that 50 percent of all doctors should deliver primary care. (By comparison, only 30 percent of American doctors are primary care physicians, down from 87 percent in the thirties.) Canadian doctors' fees are also held in check. In Ontario, for example, doctors work from a fee schedule negotiated with the Ontario Health Insurance Plan. Doctors' incomes are capped (maximum annual income is $320,000), and the physicians' associations agree to pay the plan back if billings exceed the set targets. Last year billings actually went down.

Overall, the Canadian and German patients' freedom of choice promotes quality. North York General Hospital, for instance, knows that even while it is pinching pennies it can't afford to let its reputation slip because there are many other hospitals patients could choose. And because all patients are free to choose and are equally insured, there is no shunting poor patients into public clinics while luring well-heeled patients into private doctors' offices. All patients have access to the same medical care. The story is the same in Germany. "I suppose there is a big difference having a practice in Beverly Hills or the inner city," Neubach says. "Here it is all the same."

Room With a View

Majorie Chin of the North York General billing office was on the phone. "Good morning. I'm calling from the business office downstairs. Just a reminder to stop by just to pay a telephone or television bill. Thank you." She hung up, glanced at the discharge list, and called the next patient. This is what North York's billing office worries about—TVs, telephones, and room rates. With 473 beds, the Toronto hospital employs just 12 people to handle its billing. By comparison, Lankenau Hospital in suburban Philadelphia, with 475 beds, has a staff of 65 to deal with the payment of bills.

The simplicity of Majorie Chin's job reflects the administrative and financial simplicity of the Canadian health care system itself. Although it is a government-run system, it is surprisingly efficient. It provides a clearly defined public good uniformly by raising revenues through a mix of income, sales, and property taxes. As a result, people who make more pay more for the system.

It is also user friendly. Canadian patients simply present their plastic health cards on entering the hospital. At North York, the numbers on the red-and-white cards are quickly verified by computer and admissions take no more than seven minutes. Discharge is almost as quick, since the only bills are for telephones, televisions, and semi-private and private rooms. A private room costs $120 a day. About two-thirds of Canadians have supplementary private insurance that picks up this tab.

In the last few years, Canadian health costs have risen (though at a far slower rate than U.S. costs) and taxpayers have been restive. This is what that means on the ground: Ontario actually cut most hospital budgets by two percent in 1992. But because each hospital's administrators and doctors decide how to spend its annual budget, each can adapt according to its needs. "We at least have the option of shifting resources," North York General president Murray MacKenzie says. So North York made some tough choices: It closed 30 general medical beds in order to maintain its neo natal intensive care unit.

With its 1,200 different sickness funds, the German system would appear to be more like America's cumbersome, private insurance-based system. Yet Germany, like Canada, operates with administrative simplicity. (And Germany's insurers are not completely profit-driven in the way American companies are.) Despite the multiplicity of insurers, premiums are raised uniformly through payroll taxes, billing forms are similar if not identical, and payment procedures are standardized. The result is that both Germany and Canada spend less than half what the U.S. does on bureaucratic paperwork. American hospitals spend about 20 cents of every dollar on administration;

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Canada, nine cents; Germany, about eight cents.

In Germany, hospitals also must negotiate annual fees—calculated loosely as global budgets—with the sickness funds. Currently, about 12.5 percent of an individual's salary goes to health insurance, with that sum split between employee and employer. Premium increases are tightly controlled by the government. "All the funds want to pay as little as possible" to the hospitals, explains the AOK's Johann Fann. "The funds have negotiations in advance to set a sum they are willing to pay, so there is only one offer on the table. The results have to be approved by state authorities."

A German patient only has to tell the hospital the name of his sickness fund. Once that's verified, a billing sheet is added to the patient's folder. Bills are calculated by multiplying the number of days the patient spends by a daily rate designated by ailment. A single sheet with the diagnosis, treatment, outcome, and the number of days spent in the hospital is sent to the sickness fund when a patient is discharged, and payment comes in two to six weeks. Schwabing Hospital, with 1,372 beds, manages with just 18 people in its billing office. German patients are now liable for an $8-a-day co-payment for up to 14 days in the hospital. That is the only bill they will see, regardless of the number of services or doctors they use.

In crafting its plan for American health care, the Clinton administration has adopted goals similar to those in Canada and Germany. For example, the Clinton plan mandates a basic benefits package, but it reserves individuals the right to buy additional coverage. It also prohibits insurers from denying coverage because of a person's pre-existing medical condition. It seeks to ensure that no one is denied coverage based on age, race, or geography, and it pools the risk of all individuals in order to spread the financial burden. The proposed benefits package covers hospitalization, doctor's office visits, some preventive medicine, and pharmaceuticals. By offering identical benefits and creating standardized payment forms, the plan attempts to simplify the bureaucracy. And it tries to control costs by limiting insurance premium increases and slowing the growth of Medicare.

These are all admirable objectives. But whether they can be achieved under the complicated, market-based Clinton plan is questionable. The elements which control costs and assure everyone access to equal care in Canada and Germany are just not in the Clinton plan. Consider:

➤ ***Bureaucracy*:** In its effort to leave all the existing players in place (especially the insurers), the Clinton plan adds new layers of bureaucracy. First, it would create "health alliances," which would collect premiums from individuals and businesses and "certify" health plans that would in turn provide care. While the administration paints this as a simple and minor exercise, the alliances would be handling vast amounts of money as the principal conduit between consumers and health providers. The plan calls for the states to set up the alliances. But in many major metropolitan areas this would require extensive inter-alliance negotiations. Otherwise someone living in Arlington, Virginia, might not have access to the Johns Hopkins Medical Center 40 miles away in Baltimore.

On top of these new alliances would be a new National Health Board, which Health and Human Services Secretary Donna Shalala describes as a "minor" oversight body. But internal administration memos indicate that it would be a multi-billion-dollar agency with a large staff and "far-reaching authority." The board would set premium targets for each alliance to help control costs and collect information for consumer report cards on health plans and facilities. This sounds like a good idea. But Pennsylvania's experience in collecting performance data and then ranking hospitals on a single procedure—heart bypass surgery—has been extremely contentious, with hospitals repeatedly challenging the findings with reams of their own statistics.

So in the Clinton market there will be hospitals, doctors, insurance companies, health plans, health alliances, and the National Board. This means there will be more boxes on the flow chart than there are now. The Clinton approach in fact balkanizes American medicine, and it doesn't really make administration simpler or save much money. Observers such as Urban Institute economist Marilyn Moon estimate that at best the Clinton plan would save $10 to $15 bil-

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lion in administrative costs—or 1.6 percent of the nation's total health care bill.

➧ ***Choice***: The Clinton plan differs from Canada and Germany on doctor choice—something the administration is very touchy about. "One of the great lies that is currently afoot in the country is that the president's plan will limit choice," Hillary Rodham Clinton snapped in one speech late last year. "To the contrary, the president's plan enhances choice."

But that depends on how you define choice. Compared to Canada or Germany, where virtually all doctors and all hospitals are available to all people, the Clinton plan offers only limited choice. True, a German patient must be referred to a specialist by a primary care doctor. But if a patient is unhappy with one doctor, he can try another. No patient is captive to any single doctor or hospital. But in the Clinton plan, "managed competition" will be buttressed by "managed care." This approach, used by health maintenance organizations, limits an individual to a set "network" of doctors and hospitals. Because HMOs are paid an annual fixed fee per patient, they have a built-in economic incentive to limit the kinds of care they give in order to make sure that the cost of care does not exceed the HMO's overall receipts. This could mean, for example, fewer tests or fewer specialist referrals.

To some degree, this is similar to the imperatives Katherine Neubach faces or the efforts of Canadian surgeons to prioritize their patients. But the essential difference is that unlike German or Canadian patients who can switch doctors, under the Clinton plan people would be stuck for at least a year. The time most people want to see another doctor or go to another hospital is when they disagree with a diagnosis or treatment.

But guess who will be able to switch at any time under Clinton? The "managed" market will offer options and additional coverage so that those willing to pay more in premiums and deductibles will have more choices. In Canada and Germany, an individual can buy perks with extra insurance, but extra insurance does not buy better medical care.

Although the Clinton plan would subsidize the poor and the unemployed, it does not give them the option of choosing plans that cost more unless they pay the difference themselves. Stephanie Woolhandler of the Harvard Medical School, a Clinton critic who favors a Canadian-style system, contends that the Clinton plan "is really ratifying a multi-tiered health-care system."

➤ ***Cost controls***: The Clinton plan, unlike Canada and Germany, does not cap medical costs. But without curbing costs, every other goal—the comprehensive benefits, the universal coverage—is jeopardized. The economic hallmark of the Canadian and German approaches is setting budgets and then negotiating with private health care providers over how that money is to be spent. Both systems believe that hard choices have to be made in the public arena, and sometimes those choices are very hard. This past December, to stay within its global budget, North York General was forced to shift to a reduced emergency schedule for 12 days—deferring all elective procedures and furloughing most of its staff. The German system has begun to resort to additional co-payments for items such as pharmaceuticals in an effort to blunt demand. (Germans consume twice as many prescription drugs per person as Americans.)

But the Clinton plan envisions no global budgets and no direct negotiations, the features which control costs in the other systems. So how will it save money? How will the hard choices be made? The program's key line of defense against spiraling costs is limits on premiums set by the National Health Board. But under a market system there are two risks. First, there could be pressure from consumers or health care providers that push the premium caps higher and higher. The second risk is that the caps hold and providers are faced with the dilemma of balancing patient care against making money.

The tough decisions that will have to be made—limiting access to specialists, telling people they must wait for an MRI scan or not have one at all, closing some hospitals while beefing up others—will be made by companies whose main concern is not universal coverage or equal access, but rather profit. So the final question posed by the Clinton approach to health care is which will ultimately be served: the public good or the bottom line? □

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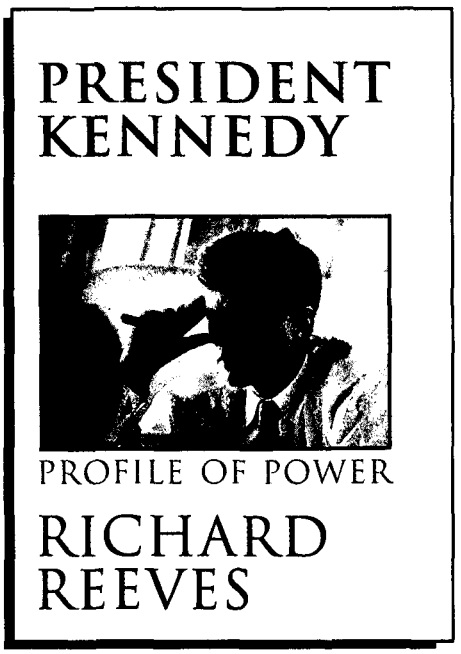
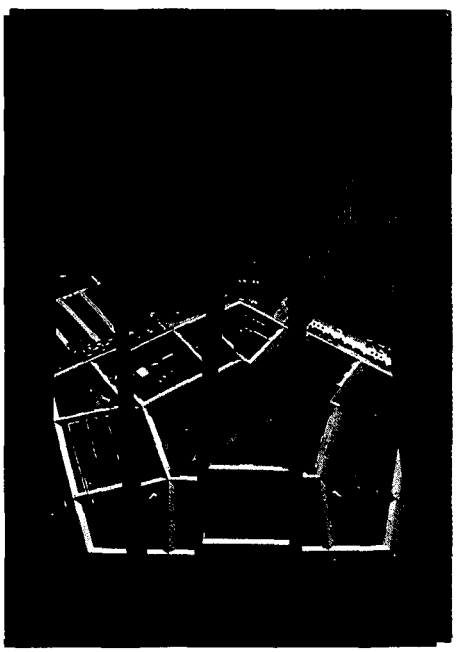
The 1993 Political Book Awards



1st Prize



Richard Reeves
President Kennedy

James G. Burton
The Pentagon Wars

Honorable Mention

Hell of a Ride
By John Podhoretz

Case Closed
By Gerald Posner

Lenin's Tomb
By David Remnick

Will Rogers: A Biography
By Ben Yagoda

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JANUARY/FEBRUARY 2019

THE WASHINGTON MONTHLY

A MULTIMEDIA INTERACTIVE URBAN SERVICE/PUBLIC POLICY/INTELLECTUAL-PERSONAL STIMULATION DEVICE

GALA 50TH ANNIVERSARY ISSUE!

Charles Peters Renounces Neoliberalism

"All a gimmick for wealth and power," Monthly founder admits

BONUS PUBLIC POLICY QUIZ!

★NAME THE PRESIDENTS BETWEEN NIXON (SECOND ELECTION) AND MARILYN QUAYLE!

★WHAT WAS KUWAIT?

★WHO INVENTED TRADABLE DRAFT VOUCHERS?

★ WHEN WAS THE PEACE CORPS ACQUIRED BY VIACOM/GENERAL MOTORS?

Monthly Contributing Editors of 1994: WHERE ARE THEY NOW? (with Internet Addresses and Parole Dates)

ON THIS MONTHS INTEGRAL CD-ROM:

★**ALL 412** "Tilting at Windmills" columns since 1970—Hyper-Card indexed for references to John F. Kennedy and other Forgotten Historical Figures!

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The Washington Monthly, 2019

From the editor-in-chief: It's finally here—the 50th anniversary of *The Washington Monthly*! Who would have thought, when this little periodical began publication half a century ago, in a dingy loft on Connecticut Avenue, that today in 2019 the *Monthly* would not only be the sole remaining public policy magazine in the EuroAmerican Union but also a leading corporate sponsor of the 2020 Summer Olympics in Pretoria, South Nigeria.

I guess it just shows what vision can do. Charles Peters, our founding editor, had the vision to create the *Monthly.* He had the vision to see the magazine through its numerous lean decades. And he had the vision to be the first respectable magazine to offer the new CD-ROM virtual-reality "centerfolds" with Tru-Feel-It (TM) interactive sensory-experience data-based sexual mannequins, fully adjustable for all 308 affectional preferences registered with the Federal Commission on Protected Lifestyle Choices. The rest, as Charlie recently told me by holocom from one of the many resort islands he now owns in the South Pacific, was publishing history.

As the *Monthly*'s editor since Charlie retired, I am pleased to present this issue, which reviews some high points since the January 1994 25th anniversary.

- Susan Threadgill

WHERE ARE THEY NOW?

Looking back on the fates of *Monthly* contributors from the 1994 anniversary issue masthead.

CHARLES PETERS: It's hard to believe this today, but Charlie once had trouble making ends meet! That was before the 2003 day when he completed simultaneous hostile takeovers of Berkshire Hathaway and the Quantum Fund, ousting the somewhat better known investors Warren Buffett and George Soros, both of whom later became Salvation Army officers. Charlie is now one of the world's richest men, having purchased MicroSoft, Boeing, Limbaugh's Double-Fried Steak franchise, the Hyatt Interactive Tru-Feel-It (TM) No-Risk Simu-Tryst chain and other important properties. Charlie, though, remains a man of the people. For instance, every week he flies one of his private jets to Charleston, West Virginia, to report to the Veterans Administration hospital for free treatment of injuries suffered in his 2006 stun-phaser duel with Norman Podhoretz regarding the honor of a certain 1948 Columbia University coed whose exact name neither could remember.

How did Peters leap from penury to wealth? Alert readers may recall the small-type ownership statements that once ran in every October issue. These were the boxes that succinctly explained the *Monthly* to be a product of Washington Monthly Co., which was a subsidiary of Washington Monthly Partnership, which was a joint venture of Washington Monthly Subordinated Debentures Fund, which was a wholly owned division of Washington Monthly Realty Trust, which was an affiliate of Washington Monthly Bank of Credit and Commerce. In the old days Charlie said the purpose of this elaborate corporate shell was to protect investors from liability, to render Pepco unable to collect on the utility bill, and so on. Now every first-year business student knows that Peters was patiently using this elaborate ruse to take over Berkshire Hathaway, Quantum, and other corporate targets.

Peters realized a moment of national notoriety in 2012 when he attained his lifelong goal of being appointed head of the federal General Unaccountability Office (formerly General Accounting Office). Peters was later forced to resign from the position when during the course of a televised hearing into $28-a-piece pure-titanium paper clips being used by record clerks at the Superconducting Supercollider, Peters became disoriented and, apparently thinking he was at lunch with a *Monthly* editor, motioned to the nearest young female congressional aide and declared, "Waitress, I'll have the usual—a double Amaretto martini with a frozen Heineken smoothie and a shot of Galliano on the side."

Cover graphics by Kelly Doe

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JAMES FALLOWS: Elected President in 2004 running on the independent Neocrat ticket, Fallows was swept into office on a wave of anti-Japanese sentiment following the 2003 incident in which the Nakamoto Corporation purchased the entire state of Illinois and then leased it back to current residents.

Fallows thus became the first officially neoliberal politician to win national office. His administration was rocked with scandal nearly from the beginning, however, especially since just a few days after Fallows was sworn in, *The Washington Monthly* published a cover story headlined, WHAT'S WRONG WITH THE CORRUPT, VENAL, BASE, INCOMPETENT, HORRIFIC FALLOWS ADMINISTRATION. Speaking to reporters, Peters noted that it had long been a *Monthly* tradition to write articles sharply critical of people the *Monthly* would be expected to like. "If I hadn't gone after Jim, Paul Warnke would have been furious," Peters explained. Admitting the article had been committed to type even before Fallows was sworn in, Peters added, "It's his own fault. He hadn't invited me to the White House for a state dinner yet."

Fallows attempted a program of neoliberal reforms, asking Congress for legislation that would limit physician incomes to $29 million per year; establish hourly first-class sleeper train service from Washington to Charleston, West Virginia, at an average public subsidy of $287,000 per passenger; make public schools and the draft mandatory for everyone except children of Fallows' friends and members of his administration; close the Superconducting Supercollider, restored by Congress in 1995 following its 1993 cancellation and expanded into a six-county combination science project and theme park employing 625,000 supervisory personnel.

The Fallows administration hit rock bottom in 2007 when a military strike against a terrorist camp in Koromo-Taji-Karastan, a newly independent republic of 800 people in the territory of the former Turkic-Russo Transitory Alliance, went awry. A dozen complex, billion-dollar Goldfinch wheat-seeking missiles, fired from the sole remaining functional B-2 bomber, missed Koromo-Taji-Karastan by some 1,200 miles and instead impacted in an art gallery in Geneva in the former Switzerland (now a member of the Greater Serbian Alliance). At a grim press conference announcing the fiasco, Fallows protested that "the Pentagon assured me this weapons system was accurate to within three microns and 100 percent reliable." Fallows declined to stand for reelection in 2008, handing his party's nomination to the former Oregon governor and *Monthly* contributor Phil Keisling.

PHIL KEISLING: Keisling, a Western populist, instituted many government-openness programs. Keisling installed video cameras in the White House so that all cabinet meetings and staff sessions could be broadcast live on CSPAN-6. He allowed himself to be accompanied 24 hours a day by a rotating team of monitors from such good-government groups as the League of Anatomically Correct Voters (formerly League of Women Voters) and the American Inappropriate Speech Suppression Union (formerly American Civil Liberties Union).

Sadly, Keisling became the fourth U.S. president to resign the office (following Richard Nixon's first resignation, Nixon's second resignation after his second election, and the resignation of President Naomi Wolf to head the Chanel fashion empire) when he was enmeshed in the Upgrade-gate scandal. Keisling was forced to disclose that he was once upgraded from coach to first class on MegaAir (formed by the 2006 merger of the sole remaining U.S. carriers, Southwest Airlines and Air Lorenzo), yet did not declare the difference between the fares as income on his federal tax returns. All major news organizations called for Keisling's resignation within 45 seconds of the acknowledgement. Keisling returned to his home state to become a minor functionary in the Spotted Owl Defense Force that rings Oregon's forests, off-limits to humans since 2002.

MICHAEL KINSLEY: In 1997, replaced Sally Jesse Raphael as host of a morning talk show. Switched from tortoise shell to red-rimmed glasses. First day's guest: a woman who was her own surrogate mother.

TAYLOR BRANCH: On completion of his work on Martin Luther King, decided to write a biography of the biographer Robert Caro. The project

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evolved into an 11-volume epic whose second volume, *Caro: The Rewrite Years*, Branch is just now completing.

SUZANNAH LESSARD: In 2004, became the final editor of *The New Yorker*, shortly before the magazine ceased publication after a corporate auditing team from Disney Interactive, its owner, declared the typical *New Yorker* story length of 275 words "far too long for the modern reader."

Lessard replaced former editor Tina Brown, who was dismissed after she inadvertently activated at a corporate board meeting a prototype Tru-Feel-It (TM) virtual-reality centerfold mannequin system that Brown had programmed to enact one of her own fantasies, which cannot be described here except to say that it involved Prince Charles, Diana and Fergie; the training of Buckingham Palace guards; disciplinary procedures at British girls schools; and an unnamed 13-year-old boy who filed certain legal charges against the former pop musician Michael Jackson (now known as Michelle Tao-Sigma-Rigel) in 1994.

TOM BETHELL and **THOMAS N. BETHELL**: Made national tabloid headlines in 2011 when they jointly married Patty Duke.

GREGG EASTERBROOK: Perished tragically in 1999 when, speaking to an environmental forum at the Harvard Temple of Goddess Obsequence (formerly Harvard Divinity School), he criticized the proposed Moss and Lichen Preservation Act, which would ban all human activity within 500 miles of federally protected fungus. After asking, "Aren't people more important than spores?" Easterbrook was accidentally crushed when enraged divinity students and representatives of the American Inappropriate Speech Suppression Union surged to cut off the microphone.

M. ROBERT KAUS: Named to the Supreme Court in 2015 when William Rehnquist expired after 43 years of service, the final seven of those years conducted via holocom from Rehnquist's suspension chamber at Bethesda Naval Hospital, where his prefrontal cortex was connected to maintenance devices following the death of his cardiovascular system, digestive system, and brain stem and the inadvertent erasure of most of his personality by a poorly trained night shift technician. (All other eight members of the Court remain the same as they were in 1994; three still actually sitting at the Court, five in cortex suspension chambers.)

After Mickey Kaus had changed his name for the third time and finally hit on a combination that sounded sufficiently serious, he had become a prominent legal theorist, principally for his advocacy of the death penalty for false statements on public-assistance forms. Soon after becoming a justice, Kaus wrote the Court's landmark decision in *Hillary Rodham Turner v. Physicians Offshore Assets Protection Board (formerly Health Care Financing Administration)*, in which the former First Lady, since remarried to cable magnate Ted Turner after Jane Fonda left Turner to cyber-meld with Ross Perot, had sued insisting her 1994 health care reform legislation had never been intended to grant doctors a constitutional right to bill all hotel, cruise, and vacation-home expenses directly to the U.S. Treasury. Kaus used the case as an opening to reimpose the draft, call in the big bills, abolish teacher certification, force Ivy League universities to itemize tuition costs, repeal the Fifth Amendment, establish loser-pays litigation, extend Red Tag postal service to small monthly magazines, charge private pilots per radio call to air traffic control, and increase departures of subsidized first-class sleeper trains between Washington, DC, and Charleston, West Virginia, to every fifteen minutes.

MY FAVORITE REFORMS, 1994-2019

RESTORE CREDENTIALISM

I guess I've got nothing to complain about, since both my boys got into Harvard. But should they really have been admitted based on good luck in a lottery administered by Publishers Clearinghouse? Since all admissions requirements were abolished at U.S. universities in 2001, it's hard not to feel that standards have declined somewhat. Now government agencies are forbidden to use tests or background information, too. Last year the Foreign Service was forced to admit to its translator corps 16 people who only speak one language, since in 2004 a federal court ruled that asking applicants if they

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speak more than one language is "disguised cultural bias." Maybe credentialism wasn't so bad after all.

• Nicholas Lemann

IMPOSE TEACHER LITERACY TESTING

I guess I've got nothing to complain about, since my kids attend the Hapsburg Country Day School of South Northampton, but somehow the idea that public school teachers need no longer be literate rubs me the wrong way.

The National Teachers Absolute Life Tenure Regardless of Incompetence or Felony Conviction Association (formerly National Education Association) has too much influence with the Party of Color (formerly Democratic Party) in this regard. At last year's POC national convention, NTALTRIFCA delegates shouted down the gray eminence, Arthur Schlesinger, Jr., when he tried to reminisce from the podium about the days when public school teachers read aloud to schoolchildren, rather than running books through digital voice scanners. This year NTALTRIFCA passed a resolution declaring that books themselves are a "repressive cultural artifact" and that all classroom instruction should be based on African oral traditions. If a no-nonsense, down-to-Earth person like Al Sharpton were still president, they'd never get away with that!

• Joe Nocera

BRING BACK KENNEDY'S SEX LIFE

I guess I've got nothing to complain about, since I passed a happy youth when it was still legal to have actual relations with other human beings. All existing actual physical relationships between people were "grandfathered" under the Abolition of Even the Slightest Hint of Sexual Harassment Through Abolition of the Sex Act Act of 1998. I must say the fact that actual sex is now abolished, and that men and women are now forbidden by law to speak to each other without at least two witnesses and a legally bonded member of the Gender Police present, does have its advantages in the workplace, especially in a highly charged, competitive environment such as the one I work in, the Washington Interactive News Paragraphs Hardfax (formerly *The Washington Post*). But it does make me wonder whether today's generation isn't missing out on something.

By chance I bumped into former Senator Ted Kennedy at the Blockbuster Sprawlplex the other day. He was checking out the new Tru-Feel-It (TM) CD-ROM that creates a fully interactive actual-size simulacrum of the 1977 UCLA cheerleaders' locker room. Kennedy seemed kind of a pathetic character, slinking away into the night, alone with his data set. It made me wonder if the old days of a lunch and a dalliance weren't so bad. As I checked out my own simulacrum package, a little diversion that recreates the closing arguments in the 1997 Lorena Bobbitt-Mike Tyson divorce trial, I wanted to touch his hand and say, "It's OK, Ted." But of course I would have immediately been arrested.

• Katherine Boo

REPEAL THE AIRPORT REFORESTATION ACT

Former Vice President Al Gore was right to point out that airports are "concrete deserts." But I've taken a few plane rides since the passage of the Airport Reforestation Act and find the landings terrifying, to say nothing of bumpy. It's true that forested airports subtract carbon dioxide from the atmosphere, but couldn't we accomplish as much by requiring everyone to save energy by turning off his, her, or their litigation monitors—you know, the new shoulder-mounted devices that record a video image of your entire life, for later use in court—at night or when they're in the shower?

• Art Levine

BAN THE NO HUDDLE OFFENSE

Last January the Buffalo Bills lost the Super Bowl for the 29th consecutive year. This time they were defeated 395 to 2 by the Raleigh-Durham Rabid Raccoons thus becoming the only team to lose a Super Bowl to a first year expansion franchise. After the game Buffalo coach Marv Levy, the first 90-year-old ever to coach in the Super Bowl, maintained that he "never thinks about the previous 28 losses" and that "next year we'll be back and we'll try to get it right." Levy admitted that he had not even watched the game.

The no huddle offense has become a metaphor for the failed aspects of liberalism. It's time to try a non-bureaucratic offense that would combine the spirit of the old Works Progress Administration with the educational benefits of the GI bill, the good intentions of the early 1960s Peace Corps . . . (Note to editor: insert standard *Monthly* dogma)

• Jonathan Alter

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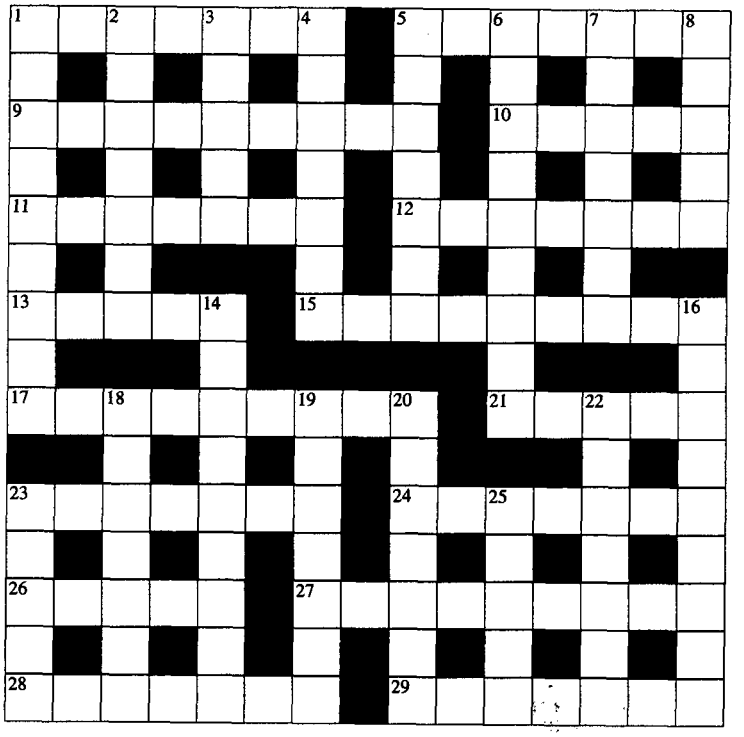
Political Puzzle

BY JOHN BARCLAY

The numbers indicate the number of letters and words, e.g. (2,3) means a two-letter word followed by a three-letter word. Groups of letters, e.g. USA, are treated as one word.



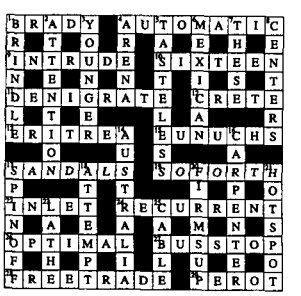
ACROSS

1. Former President skating on thin ice these days? (7)
5. Former President settling generously these days? (7)
9. Notes about congressmen. (9)
10. Part going West the same way. (5)
11. Covers bad sex about nurse. (7)
12. Repeat a tree it cultivated. (7)
13. Light turning to go bad before church. (5)
15. Pesetas we exchanged for flowers. (9)
17. Scent said to travel more than one length. (9)
21. Composer that is placed after Met appearance. (5)
23. Resolve dispute about a Washington location. (7)
24. Process negative to make Los Angeles green. (7)
26. Of a bone in a degree of detail I acknowledge. (5)
27. Issues intricate striping around middle of month. (9)
28. Former President sitting on bench in D.C.? (7)
29. Former President who worked in White House 100 years later? (7)

DOWN

1. Brought in the Vaders' organization. (9)
2. Reset meter or be in more distant location. (7)
3. Close confederate who never got to lead defense? (5)
4. Speaks without knowledge, uses *e.g.'s* carelessly. (7)
5. Government department to deal only with diamonds? (7)
6. Naval vessels arrayed for voters, etc. (9)
7. Suite at messy place. (7)
8. Chutzpah is never out of place. (5)
14. Reach heat strangely for sign of misery. (9)
16. 5 & 10 noses set up for presidential candidate. (9)
18. Useful building dedicated to saint. (7)
19. Simply put 150 around pile in front of gym. (7)
20. Particular place is redecorated. (7)
22. Savagely too torn for capital. (7)
23. Remain deranged about tragic beginning. (5)
25. Cuban, for example, in tailspin before noon. (5)

Answers to last month's puzzle:



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The *Real* Leader of the Opposition

Phil Gramm and the surly, say-what-it-takes Republicans

BY DAVID SEGAL

Judging from statements on the floor of the Senate, Phil Gramm has been in a terrible mood for over a year. The source of his irritation: Bill Clinton's tax increase and vision of a more active government. "I believe that hundreds of thousands of Americans will lose their jobs because of this tax bill," Gramm said last August. "Three-and-one-half years from now my guess is that the President will be one of them." He called Clinton's deficit trust fund proposal "fraudulent," and labeled the tax increase "one of the great electoral betrayals that I have personally witnessed." In a less generous moment, he compared the administration's philosophy of governing to that of Cuba under Castro and North Korea under Kim Il Sung.

Measured against Gramm's past fulminations, Clinton has gotten off easy. A veteran practitioner of the sharp-elbowed, shin-kicking politics of the Lone Star State, Gramm is unabashed about his penchant for hardball. "I didn't come to Washington to be loved," he's fond of saying, "and I haven't been disappointed." During the Bork hearings back in 1987, the Texas senator referred to Judiciary Committee members Edward Kennedy and Joe Biden as "the people who cheated in college." *U.S. News & World Report* reported that last year, when Senators Dave Durenberger and James Jeffords voted in favor of a campaign finance reform bill, Gramm entered the headquarters of the National Republican Senatorial Committee, which he heads, looked at the portraits of the 44 Republican senators in the lobby, and ripped the photographs of Durenberger and Jeffords off the wall. "They're not Republicans anymore," he told onlookers.

As a member of the opposition these days, Gramm's snarling style is winning attention. Other Republicans have struggled to make their mark under a president skilled at usurping traditionally conservative positions on social issues and straddling the center on nearly everything else. Not Gramm. Beginning with the budget battle last March, the former economics professor has been a one man pocket of legislative resistance with a two step strategy: draft an alternative, then get nasty. Without

Research assistance for this article was provided by Adam Marcus and Stryk Thomas.

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even a committee chairmanship to his name, he has parlayed his unique mixture of smarts and venom into a profile that at times rivals Robert Dole's. Gramm's reflexive intransigence and his facility in the policy fray have made him the unofficial leader of the GOP's just-say-no-pack. And in that role, he's already having an effect. By consistently outflanking Dole on the right, Gramm has become known in GOP circles as the person who makes the Minority Leader think twice about accommodating overtures from the White House. "They keep their eye on one another," says Dan Cass, of the Project for the Republican Future, a think tank. "Gramm is not one of the guys waiting for Dole to pass out the talking points before he speaks his mind."

Gramm isn't quiet about his presidential aspirations, either. His vast war chest alone—rumored to be nearly $4 million strong—assures he'll be a serious candidate. Detractors say he's not telegenic, and has a weird accent and a style that won't sell outside of Texas. Note, they say, that Gramm's first brush with the national limelight—his droning '92 Republican National Convention keynote—was a disaster. His supporters point out that the last person to bomb a big convention speech was Bill Clinton; Carter's accent was no less regional; and as for looks, remember Nixon? They also point out that judging by his poll numbers, Gramm is the most popular politician in the country's second largest state, a state composed of the very sorts of Southern, sun belt, and suburban voters that the GOP will need in order to have a prayer in '96.

He is already campaigning hard. Gramm now leads his likely rivals in visits to New Hampshire, having been there six times since Clinton's election. And heading up the National Republican Senatorial Committee allows him to do favors and supply funds to Republicans around the country, all of whom will provide a ready network come campaign time. "You have to ask, concretely, who can really get 25 percent of the vote in Iowa, who can do well in New Hampshire, who can go South and do respectably," says Republican guru Bill Kristol. "Gramm will be formidable."

And in the meantime, he will be ubiquitous. An acknowledged master of the art of visibility, Gramm runs the most effective public relations office in town and has an unparalleled thirst for press. "The most dangerous place to be standing in Washington," goes the Hill adage, "is between Phil Gramm and a TV camera." More importantly, Gramm long ago learned one of the immutable laws of life on Capitol Hill: The quiet, often tedious work of legislating is rarely enough to land you on "Meet the Press." Ambitious congressmen need a knack for the soundbite and a gift for the partisan snipe. "He's good at playing the game," says a White House official. "The press know they can go to him for the biting quip."

Congressmen need, also, to know how to answer questions with a subtext that says, "I stand

Roman Genn

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with normal people on this one, and I reject the perverse values of inside-the-beltway Washington which caused this problem in the first place." Gramm has that skill in spades and unlike, say, Newt Gingrich, who is quotable but usually comes off like a lightweight with a grudge, the Texas senator shows up with charts and facts to buttress his one-liners with hard evidence. He is mean enough to be entertaining and smart enough to be credible. On any number of issues—health care and crime come to mind—he pulls in more headlines and talk show spots than colleagues who've been toiling on the topic for years.

With Republicans struggling to define themselves in the age of Clinton, the state of the opposition in coming months and years could look more and more like Gramm. He is suited to the moment; with fewer substantive differences dividing the administration from the GOP, he's good at making the remaining differences seem mortally significant, and good at arguing that Clinton is faking it when the president overlaps with Republicans.

Moreover, no one is better at pushing a major thrust of the GOP's message: anti-government populism. "I have a philosophy of free enterprise," Gramm told me in an interview. "I believe that government is the problem." The party's ornery apostle of freer markets and lower taxes, Gramm's sermons invariably conclude that government should be scaled back—not because it doesn't do anything right, but because it *can't* do anything right. This irredeemable incompetence means there are no ways to improve government, so the more we dismantle, the better, and the sooner we choke off its supply of funds—the sooner, in other words, that we cut spending and reduce taxes—the better. With characteristic lack of subtlety, this message is often animated by class resentments. Gramm likes to say he's for "the people who pull the wagon," while the Democrats keep piling the wagon with more freeloaders. "We're the only nation in the world where all our poor people are fat," he said in a speech about recipients of federal aid.

When *should* government spend money? Use the Dickey Flatt test, Gramm suggests, something he introduced to the world during his keynote speech at the last Republican National Convention. Flatt, you might remember, is the stationery store owner from Mexia, Texas, whom Gramm described as the breathing emblem of the hard-working, tax-paying bedrock of this country. "Whether you see Dickey Flatt at the PTA or the Boy Scouts or at his church," Gramm said, "try as he may he never quite gets that blue ink off the end of his fingers." Lawmakers should keep Flatt in mind when wondering whether to vote for a program and ask if the expenditure is "worth taking money away from Dickey Flatt." That, Gramm explained, is unlikely: "Let me tell you something, there aren't a lot of programs that will stand up to that test."

It's not surprising to hear a Republican in high dudgeon about government incompetence, but having Phil Gramm lead this particular cause is, shall we say, ironic. Why? For one, Gramm is a living rebuke to the notion that government is merely in the way. The government helped bring him into this world (he was born in a military hospital), funded his upbringing (his father was an Army master sergeant), paid for him to attend private school (with the GI insurance money Gramm's mother received when her husband died), and even picked up the tab for graduate school (thanks to a National Defense Fellowship). After getting his Ph.D., Gramm got a job at Texas A&M, which is state-run, was elected to the House of Representatives, and then to the Senate. In sum, Phil Gramm joined the government's rolls the first day of his life and has never left.

Then there's his paper trail. You'd think Gramm would be waging a guerrilla war to scale back government spending. He isn't. What's typical is his sponsorship of Orrin Hatch's bill to create an Office of Dietary Supplements in the National Institutes of Health to test vitamins, herbs, and minerals.

Regardless of the bill's merits, this didn't sound to me like the sort of program that would pass the Dickey Flatt test. But there was only one way I could be sure: call up information in Texas and then ask the man himself.

"No, that would not pass the test," says Dickey Flatt, from his store in Mexia, forty miles east of Waco. "I bet that idea came from some private organization that's giving the Democratic Party something like 16 zillion dollars so the government will do the job and they won't have to."

When you turn down the volume, parse his plans and check his votes, you realize that much

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of what Gramm wants would expand the government, sometimes in ways that are worth considering, and invariably in ways that contradict what he claims are his fundamental beliefs. The key, it turns out, is to watch what he does rather than listen to what he says, and to understand that Gramm's overriding ethos has little to do with Dickey Flatt or fiscal conservatism or any principle larger or more dignified than his own political ascendance.

Phil Gramm: Old Democrat?

Take deficit reduction. Thanks to the Gramm-Rudman law and his "cut spending first" mantra, Gramm has earned a reputation as an honest-to-goodness deficit hawk. G-R established a series of incremental spending reduction targets over a period of years and set up an axe that would hack across-the-board cuts if legislators were unable to meet those targets. This made for good press, but it's a witless way to reduce deficits and this particular effort was unserious. It's witless because, as Michael Kinsley argues, there's no reason to cut everything equally if some programs could take a hit more readily than others (why cut Head Start the same as the sugar subsidy?). And it was unserious because it didn't include the largest government program of all, Social Security. In 1990, once Congress realized it couldn't keep pace with G-R's schedule—and realized how ugly across the board cuts would be—it voted itself out of the Gramm-Rudman noose.

Since then, Gramm has posed as a kind of budget martyr—I tried, dammit, but my colleagues wouldn't make the tough decisions. "Shortly after the 271 representatives and 63 senators patted each other on the back for passing G-R in 1985," Gramm wrote in a *Washington Times* op-ed, "the slippage began. Some challenged it in court. Other tried to exempt favorite programs from its consequences." At other occasions he moaned, "Balancing the budget is like going to heaven: everybody wants to do it. They just don't want to do what you have to do to make the trip."

Had Gramm offered up his own favorite programs? Quite the opposite. Gramm may be the guy with the gun to Congress' head screaming "Diet!" but there aren't many lawmakers in either chamber better than he is at raiding the fridge. The National Taxpayers Union Foundation's survey of all bills sponsored by members during an 18 month period starting in January of 1991 found that there were only three representatives in either chamber who had failed to sponsor a single bill which cut spending. Gramm was one of them, and the only Republican (Bob Kerrey and Robert Byrd were the other two). The bills he did back, if enacted, would have added a total of $8.3 billion to the deficit. (These facts so clearly gave the lie to Gramm's public posings that the senator's staff summoned the authors of the study up to the Hill for a stern chat and suggested they never publish anything like that again—advice they ignored.)

"I'm carrying so much pork, I'm beginning to get trichinosis," he told a local paper in a more candid moment. He has backed billion-dollar Texas pork projects like the Superconducting Supercollider and the Space Station. This past session he fought three bills that would have ended the government's million-dollar mohair subsidy, and has supported the Gulf of Mexico Preservation Act, which would cost $200 million in the next five years. He pushed for the plant stress lab at Texas Tech ($100 million a year), and netted $500 million for the National College of D.A.s in Houston. Those expenditures are hypocritical given his rhetoric, but they at least make pork barrel sense. "I'm going to work for tight budgets, I'm going to reduce spending," Gramm says. "But once spending levels are set, I'm going to fight to see that Texas gets its share."

Then how to explain all the bills with specific cuts that Gramm dodged? He didn't support a repeal of the Helium Act, for instance, which would have ended the government's $34 million a year helium extraction and reserve program (a holdover from the twenties when helium sources were scarce and the government thought it might need the stuff for blimps). He wasn't on the bill to cut foreign assistance, and passed on repealing the Davis-Bacon Act, a move which would allow open bidding and competition for federal contracts and save the government $2.5 billion over the next five years. Last session there were 77 bills in the Senate which contained specific cuts to the budget. Gramm was on just two.

He stuck instead with the *faux*-courage of across-the-board cuts and caps by backing no fewer than six G-R-style bills. "There's nothing

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in the federal budget that doesn't look good to somebody," says Bowman Cutter, a special assistant to the president at the Office of Management and Budget. "The easiest thing to do is legislate caps and avoid all the heat for specific reductions. But it's a pure symbol vote. It simply puts you on record as being against big deficits."

Judged by ardor alone, Gramm must truly want a balanced budget, but he's simply unwilling to pay *any* political price to achieve it. Which leads him to a position masterfully calibrated to an enduring truth about many American voters: namely, that their fervor about the need to reduce the deficit is matched only by their belief that their own programs should not be touched.

Phil Gramm: Demagogue?

Gramm's deficit demagoguery isn't surprising to anyone familiar with his career. His first race in 1976 was a quixotic run against then-Senator Lloyd Bentsen when Gramm was 33, a Democrat, and an unknown economics professor. A dogged and combative campaigner, he poured $50,000 of his own money into his campaign and crisscrossed the state charging that Bentsen "has no principles and no business representing the people of Texas in the U.S. Senate." He also peddled an alarmism about foreign policy that seems vintage 1960: "We have lost Asia. Spain and Portugal could fall to the communists at any moment. And two mainstays of the Atlantic Alliance, Italy and France, could become communist satellites through free elections."

He was resoundingly defeated. The following day he announced he would run again, this time for the 6th Congressional District seat which would soon be vacated. Gramm's main competition in the primary was one of his former students, 25-year-old Chet Edwards. The race heated up when Gramm accused the Edwards camp of floating the rumor that Gramm's first child was conceived out of wedlock (Edwards has long denied the charge). Gramm told crowds that his opponent was a lousy economics student; Edwards then showed reporters the "A" Gramm had given him. A pivotal moment came when "Tiger" Teague, the conservative Democrat who was stepping down from the seat, became irked that Gramm was implying that he and Teague were close. "I am not pleased that Phil Gramm said he worked for me," Teague said, and later called a press conference to mount an attack on Gramm's integrity so vicious that it actually won voters to Gramm's side. Edwards came up 115 votes shy in the primary and Gramm went on to win the general election with 65 percent of the vote.

In Washington, Gramm seemed hell-bent on alienating everyone. His first speech in the House was made on Republican time to attack a Democrat-supported bill and included a belittling assault on an argument offered by Jim Wright, who was then the head of the Texas delegation as well as the majority leader. He drafted an alternative budget soon after the House Budget Committee passed its own. Later, Gramm shmoozed his way back into Wright's good graces and then used Wright to land a seat on the Budget Committee, reassuring all concerned that he could be a team player. As Wright recently told *The Texas Observer*, "Phil Gramm told me and others that if he were favored by a Budget Committee assignment he would make his arguments within the committee and then would close ranks and back whatever budget resolution the majority crafted." Instead, Gramm perpetrated a now notorious double-cross. Sitting in on Democratic caucus budget meetings Gramm reported the party's budget strategy to David Stockman, then Reagan's budget director. He also collaborated with Stockman on Reagan's first budget, soon to be christened Gramm-Latta, and helped line up conservative Democrats behind it. The Budget Committee declined to renew Gramm's membership at the end of 1982.

Gramm decided to switch parties and instead of simply announcing the shift and retaining his seat he resigned and ran in a special election. He has made no small amount of political hay about the guts required to take this kind of chance, and he has a point. But then again, at the time of the election, his district, like much of Texas, had been swept into the GOP by Reagan. Moreover, Texas' governor made the timing especially felicitous for Gramm by calling for an election a scant six weeks after the announcement, not enough time for an opponent to launch a genuine challenge. The move also made savvy political sense. As Robert Draper wrote in the *Texas Monthly*, it allowed "Gramm to recast himself as a political martyr who had been

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Memo of the Month

[From the Office of United States Senator Phil Gramm]

MEMO

TO: All Regional Directors / Managers

FROM: Jeb Hensarling

DATE: March 28, 1989

RE: OFFICIAL GREETING PARTY FOR MEDIA EVENTS AT AIRPORT

Please be advised that whenever the Senator arrives by airplane to a media event taking place at the airport, there should be an official greeting party. As soon as the plane lands and comes to a complete stop, this greeting party should approach the plane and form a receiving line. In the past, the Senator has deboarded for a media event without a greeting party there to welcome him. There were t.v. cameras present to film the Senator having to walk to locate the people to meet, rather than having them walk to meet him. Obviously, we wish to avoid this situation in the future.

JH/dpm

Courtesy of *The Dallas Morning News*

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driven out of the Democratic party, rather than be seen as a traitor to the party." Gramm won without a run-off, taking 55 percent of the vote.

When John Tower stepped down from his Senate seat in 1984, Gramm pounced. His opponent in that race was Lloyd Dogget, a liberal Democrat in the state senate. The campaign revolved around one issue: Dogget, who had the support of the gay community, had received an unsolicited $500 contribution from a gay group which had held a fund-raiser featuring a male stripper. "Gramm learned about this in June," says a former Dogget staffer, Kate Fein, "and that's all he talked about until November." Gramm's radio ads didn't demure: "Lloyd Dogget actively sought and received the endorsement of gay and lesbian groups. . . Homosexual groups in San Antonio even had the poor taste to hold an all-male strip show to raise money for Dogget. Their magazine ran his picture taking their money." The tag line read: "Friends of Phil Gramm paid for this because Phil Gramm supports traditional family values."

There were also TV ads of the Gramm family on a fishing outing enjoying family values, but the Ozzie and Harriett imagery came with a strange twist: Harriett was hidden. Gramm's wife, Wendy, is of Korean descent and the most you could see of her in these spots was the back of her head. "We'd watch these ads," says another former Dogget staffer, David McKenna, "and we'd be wondering, 'Hey Phil, where's Wendy?'"

Even after Dogget returned the $500 contribution, the gay stripper issue would not go away. Between the withering attacks and Reagan's coattails, Gramm beat Dogget by 18 points.

Gramm's ties to the Reagan administration helped to make him a prominent player in budget deals and the best known member of the Texas delegation. His most renowned handiwork was Gramm-Rudman, but he also spent tremendous energy at home converting Texas Democrats to Republicans and pushing GOP candidates. His advocacy was often hard to distinguish from self-puffery; a common line was that "a vote for [insert name] is a vote for me." When his long-ago rival, Chet Edwards, sought Texas' 11th Congressional District seat, Gramm said in a commercial, "The bottom line is this: I can and will work with Hugh Shine. I cannot and will not work with Chet Edwards." Edwards won, and Gramm's presence proved a mixed blessing for many of those he supported—in 1990, for instance, 13 of the 16 state and national candidates he campaigned for lost.

Phil Gramm: New Democrat?

A central facet of Gramm's career—from spying for Stockman to securing two consecutive terms as head of the Republican Senatorial Committee—is a genius for making himself a player. Under Reagan, when tax cuts were the only game in town, Gramm helped engineer the seminal 1981 tax-cutting budget. Through the late eighties and early nineties when deficit reduction was the hot problem, Gramm's name became synonymous with the solution. Clinton's arrival has revealed how good Gramm is at updating his genius to the times. Now that welfare and health care reform seem imminent, Gramm has emerged with some interesting plans. On welfare, for instance, he has come up with an idea that is so filled with a liberal, let's-try-*something* spirit that it is hard to believe he actually thinks it would work. In a speech which included, naturally, plenty of snipes about the evils of greater government, he laid it out at a meeting of the GOP faithful in January:

> We are capable today with our computer technology to have every welfare mother in America come in and take a one-hour test, and we can design a home study, computer-generated, computer-proctored study program for her, tailored to her needs and we can make her check contingent on her completing that course work and developing the skills at home with her children that will make it possible for her to break the welfare cycle, and *I want that provision to be the law of the land.*

Is Gramm suggesting that we give welfare mothers computers and modems? Or that we hire more social service bureaucrats and give *them* computers and modems? Either way, would *this* pass the Dickey Flatt test?

"That is just an *awful* idea," says Dickey Flatt. "Absolutely *awful.* You need more bureaucrats. Then you need operators to teach these bureaucrats how to use the computers. That just means more government."

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Mr. Flatt would no doubt also flunk Gramm's original health care plan. "People would be hunting Democrats with dogs by the end of the century" if Clinton's health plan passes, Gramm warned at a September press conference unveiling an alternative of his own. The problem, as he sees it, is that the plan would entail an explosion of regulations and the loss of consumer choice.

Oddly enough, Gramm's plan is wide open to similar charges. By trumpeting competition and consumer choice to keep costs down, Gramm gives it the patina of free market conservatism. But look what's underneath. Gramm would require that insurers provide employee policies that are "guaranteed renewable" with "premiums that could not be raised based on the occurrence of illness." Because Congress has steadfastly refused to regulate the insurance industry in the past, that means not just new laws, but new bureaucrats to oversee those new laws. Additional regulations await employers.

The National Taxpayers Union Foundation's survey of all bills sponsored by members during an 18 month period starting in January of 1991 found that there were only three representatives in either chamber who had failed to sponsor a single bill which cut spending. Gramm was one of them.

"When my momma gets sick, I want her to see a doctor, not a bureaucrat," Gramm drawls in town meetings around the country. But if Gramm's momma is like millions of other Americans and has a pre-existing condition, her son's plan would acquaint her with quite a number of bureaucrats. Gramm would place those with pre-existing conditions in a high risk pool, then allow insurance companies to bid for their business. These individuals would be required to pony up one-and-a-half times the average premium charged to healthy persons in the area. What if an insurance company charges someone seven times the area average? The government picks up the difference.

Of course, that could get expensive because Gramm hasn't given insurance companies any incentive not to gouge customers (and by extension, the government). Worse, insurers have a great reason to broadly define what constitutes a pre-existing condition and send as many people as possible to the high risk pool. This is a little like telling the defense industry that they get to decide how many fighter planes we need, then allowing them to charge whatever they want to build them.

Hence, the scheme would occasion either a vast transfer of wealth from Washington to the insurance industry, or, as is far more likely, it would occasion tough federal oversight and more regulations. In fact, this high risk pool would have to look a lot like a single payer system because it would result in people paying identical sums for coverage and would require government intervention to control costs. All of which explains why conservatives hate Gramm's plan. "He would create a new national health care system for high risk people," says Stuart Butler, director of policy studies at the Heritage Foundation. "It would have far less choice and far deeper federal involvement than Clinton's plan. This is not what you'd expect from Phil Gramm."

Indeed, other elements of the plan entail intrusion on a scale that makes Clinton seem positively libertarian. "Financially capable" persons (200 percent of the poverty level) who choose not to purchase at least catastrophic insurance and end up needing care will have their wages garnisheed by the government over the course of seven years. Also, anyone getting federal assistance who smokes, drinks excessively, or is overweight will have to pay more for insurance. Without checking dumpsters for empties and fingers for nicotine stains, it's unclear how the government would know.

Given his alarms about the Clinton plan, it's hard to figure what Gramm had in mind when he drafted his own. Whatever it was, he's for-

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gotten it. Latching on to the current GOP vogue, Gramm has scaled his plan back to minor tinkerings and add-ons to the present system and joined the "there is no health care crisis" chorus.

This shift is extremely revealing. It suggests that the point of his original plan was not so much to expand health care coverage to the country's 37 million uninsured but to abrade the administration and win some headlines. After all, if back in November Gramm was focused on the health care system enough to draft a plan to revamp it, he should have noticed *then* that the system wasn't in crisis. It's not as though there was a crisis five months ago and now it's over. There is a more likely explanation: Gramm's original plan—which had laudable ambition—was generating few cosponsors and little press. He saw an opportunity when Bill Kristol quickened some administration pulses in early January with a *Wall Street Journal* op-ed outlining the "there is no health care crisis" thesis. Shortly after the piece was published, Gramm met with Kristol and soon dumped his first plan in favor of Kristol's tiny bag of reforms (like malpractice legislation). Sure enough, mini-Gramm, as the plan is now known, has made its author a player on health care. Dole, who also used to agree that something had to be done on health care, boarded the no-crisis train in late January.

Phil Gramm: Salesman

Mini-Gramm may turn out to be a rare miscalculation for its creator, primarily because Clinton's State of the Union speech devastated the no-crisis line. "That speech reinforced the hand of moderate Republicans," says Senator Dave Durenberger. "These are Republicans who've been involved with health care reform since the seventies, who believe we've got a real problem." It now looks as if John Chafee will be the GOP's point man in the coming legislative debate.

But once again, Gramm is trying to sell himself as the party's conservative big thinker on the day's hottest issue. It's a line that is often hard to buy. His ideas may come cloaked in the gravitas befitting a Ph.D. in economics, but the underpinning doctrine is usually nothing more esoteric than Tell Dickey Flatt What He Wants to Hear. For instance, on the country's two thorniest economic problems—deficit reduction and the savings and loan collapse—Gramm's diagnoses resurrect that cheery and dubious motto of the eighties, "We can grow our way out of the problem." Asked how President Gramm would reduce the deficit, he recites Republican boilerplate about the need for a line item veto and a balanced budget amendment and adds, "I always begin by pointing out that the economy is growing and that growth is generating between $60 and $90 billion in new revenues. The key, if you're going to deal with the deficit, is that you'll benefit from these new revenues." And here he is in an interview with John McLaughlin in January of 1989, one year after optimistic estimates of S&L losses were at $100 billion and a federal bailout looked absolutely inevitable:

> There is a hole out there. How big it is, $30 billion, $50 billion, somebody has to pay for it. And the person that I am committed to seeing not paying for it is the taxpayer.

How is that possible? asked an incredulous John McLaughlin.

> If we can get private investors to come in and invest private capital, if we can see the recovery in the Southwest which has started continue—that is, we don't have a national recession that nips our recovery in the bud—then I think we've got a fighting chance. . . of working through this without the taxpayer having to pay for it.

History has not been kind to that Disneylandish forecast, and Gramm, without question, knew better. "By 1989, there wasn't a sane person on earth who thought taxpayers were going to dodge this bullet," says Steve Pizzo, author of *Inside Job: The Looting of America's Savings and Loans*. "And every day the Phil Gramms of Congress denied the size of the problem and refused to close down the thrifts, we lost millions. At one point, $30 million a day."

One of Gramm's gifts is repackaging this kind of pandering as heroism. On the Hill, where he's notorious for stealing credit for bills and ideas he didn't think of, there's a word for it: Grammstanding. Last year, the *Dallas Morning News* gave Texans a behind-the-curtain look at some of his methods when nine former Gramm staffers supplied the newspaper with internal memos from the senator's office. One concerned

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Capitol Repair Kit

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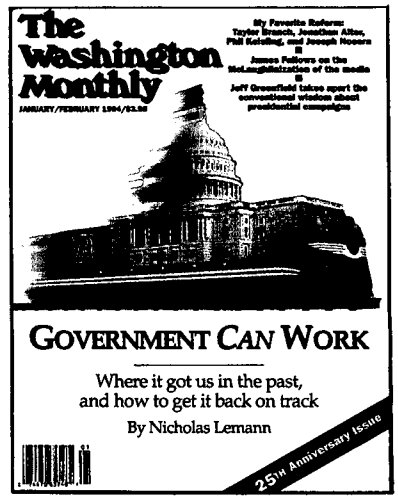

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Gramm's visit to the Brooke Army Medical Center in San Antonio. The memo stated that "We have tried to create a 'BAMC funding scare' while feeling comfortable that BAMC is safe from the budget knife." The funding scare was designed to cast Gramm as the knight who rescued BAMC from oblivion but Gramm knew that the hospital would not have its funding slashed because Pentagon officials had told him so privately a few days before his visit. The senator's press office later told the *Morning News* that the word "not" had been omitted from the memo: "The sentence should read 'We have not tried to create a BAMC funding scare. . .'"

Even by Washington's jaded standards this is cynical stuff. Another memo contained instructions on how to capitalize on the senator's wife, the same wife who had been hidden in those family values commercials: "The Asians are our natural constituents, philosophically and because of Wendy. This should be an easy sell; we need to continue to activate them, especially financially."

The key phrase here is "easy sell." Gramm likes Democrats to believe he's dangerous because he is an ideologue, but the real problem is that beyond hucksterism and ambition, he is devoid of ideology. Eyeing a run for the White House in '96, he's virtually required to lob shots at the administration; anyway, lobbing shots is now part of the GOP's job. But another part of the job is offering the public viable alternatives to Democrat ideas. For Gramm, that work is inseparable from self-promotion and leads him to sell plans that will score him points—or contradict his core philosophy—rather than move the debate forward or actually improve people's lives. It's telling that Clinton's real trouble on health care has come from a Democrat, Jim Cooper. It's also telling that these days Gramm isn't sure if he's the guy who wants to reduce spending or pay for a Dietary Supplement Department at NIH, shrink the government or wire the inner city for Internet, solve the health care crisis or disavow it. The shame is that there are few politicians today who are as smart as Gramm or as good at connecting with the kind of voters the country will need to accomplish real reform. Understanding how to "activate" Dickey Flatt, however, is not the same thing as leadership. □

The Washington Monthly

JOURNALISM AWARD

FOR NOVEMBER 1993 IS PRESENTED TO

Martha Cruikshank

San Jose Mercury News

Headlines about downsizing, corporate layoffs, and restructurings have been so common lately that it's hard to imagine how a story about white-collar job woes could be arresting. So the *Mercury News'* Sunday magazine took the imaginative step of publishing excerpts from the diary of a woman, using the pseudonym Martha Cruikshank, who chronicled an emotional summer at a Silicon Valley firm that began with the announcement that layoffs were coming.

Through her insider's account, Cruikshank accomplishes what most business journalism rarely does: She paints a convincing portrait of the cultural forces of survival that a possible layoff sets off in an organization. She admits: "I find myself relentlessly bench-marking my colleagues. I can do her job. . . Can she do mine? Maybe. But I'm better at it. Aren't I?. . . I used to be a much nicer person." At a time when the U.S. economy is averaging 50,000 job losses a month, the human toll—even on people like Cruikshank who survived this round of cuts—is substantial, and accounts like these open a window on that often-obscure fact.

The Monthly Journalism Award is presented each month to the best newspaper, magazine, television, or radio story (or series of stories) on our political system. Nominations for any newspaper, magazine, radio or television station in the country are welcome. The subject can be government in its federal, state, or municipal manifestation. Please send nominations to Monthly Journalism Award, 1611 Connecticut Ave. NW, Washington, D.C. 20009. Two copies of the article or broadcast text should accompany the nomination.

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My Favorite Reform

Give Everyone a Job

BY MICKEY KAUS

On January 30, *The New York Times* reported that President Clinton's welfare reform plan might require "a work program of 2.3 million jobs." The 2.3 million figure was actually an estimate of the number of welfare recipients who would use up the two years of cash benefits Clinton wants to offer before imposing a work requirement. According to the *Times*, the statistic was leaked by "an official who opposes the work program." The disclosure seemed to have the desired effect. The next day, Mary Jo Bane, co-chair of Clinton's welfare task force, assured a meeting of governors that the White House had no desire to "face the prospect none of us wants to face, which is a large number of public sector jobs."

There aren't many vocal defenders of public jobs programs in Washington these days. Conservatives who used to demand that welfare recipients be put to work sweeping the streets are now recoiling from the prospect of spending the money necessary to pay for the brooms, supervisors, and day care such "workfare" programs require. The neoliberals at the Democratic Leadership Council tend to agree that the idea of a big public works jobs plan is just too "Old Democrat." But Old Democrats don't like the idea much either, mainly because the government employee unions that support them fear public works workers might steal union jobs.

Here is the prototypical good idea that is too simple for Washington's advanced political culture to accept. There are people who need work. There is work that needs doing. Why not pay the people to do the work? It beats paying them to do nothing, which is what our welfare system mainly does, with disastrous social consequences. Yet Washington is now filled with policy planners (some of them on Clinton's task force) who will explain to you that a last resort public works program is. . . well, it just won't work. It's all very complicated, you see. You really have to be an expert.

But it's not that complicated. Using the government as employer of last resort is, after all, something that America did, and did reasonably well, during the Depression, when Franklin Roosevelt's Works Progress Administration employed some 3.3 million people at mostly useful tasks. In eight years, the WPA constructed 40,000 buildings, including 8,000 schools. It built or improved 650,000 miles of roads, 124,000 bridges and viaducts, 8,000 parks, 18,000 playgrounds, and 2,000 swimming pools. It built New York's La Guardia Airport. It built the gym at my high school. Even some modern conservatives look back on the program with nostalgia. As one put it: "WPA—some people have called it boondoggle and everything else—but having lived through that era and seen it—no, it was probably one of the social programs that was most practical in those New Deal days." But then Ronald Reagan was always considered a bit naive.

In fact, the WPA is still a practical idea. It solves two large social problems at once.

Mickey Kaus, an editor of The Washington Monthly *from 1979 to 1981 and a senior editor at* The New Republic, *is author of* The End of Equality *(New Republic/Basic Books).*

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First, it is a way to keep people employed during recessions—a "countercyclical" program, in economist-talk. Second, it can be a permanent replacement for welfare programs that currently dole out cash to the poor. This second, anti-welfare function was an integral part of FDR's original conception of the WPA. When he announced the program in 1935, he simultaneously ended a relief program that had been giving cash to the able-bodied poor. "To dole out relief in this way is to administer a narcotic," FDR declared. Three years later, his aide, Harry Hopkins, would testify that

> It is my conviction, and one of the strongest convictions I hold, that the federal government should never return to a direct relief program. It is degrading to the individual; it destroys morale and self respect; it results in no increase in the wealth of the community; it tends to destroy the ability of the individual to perform useful work in the future; and it tends to establish a permanent body of dependents.

How much of the current welfare mess would we have avoided if we'd taken Hopkins' advice?

The WPA experience offers at least three other lessons that Clinton's welfare reformers might take to heart.

First, if you are running a last-resort jobs program, set the wage low. Roosevelt said the WPA's wages should be "larger than the amount now received as a relief dole, but at the same time not so large as to encourage the rejection of opportunities for private employment." The problem with implementing this sound principle today is that the amount now received as a "dole"—welfare, food stamps, and Medicaid benefits—often exceeds what can be earned in a minimum wage job. The solution, which Clinton to his credit is pursuing vigorously, is to give tax credits and health insurance to minimum wage private sector workers—and, eventually, to raise the minimum wage.

Second, get ready for a fight with the unions. The American Federation of Labor almost crippled the original WPA by demanding that it pay union wages. FDR finally had to break a strike over the issue in 1939. Today, Democrats working on Clinton's welfare plan express confidence that any differences with government employee unions can be negotiated away. That will be possible, I suspect, only if Clinton either pays his "community service" workers too much or makes sure they aren't doing anything useful enough to threaten union jobs.

Third, don't "target" public service jobs to distressed inner city communities. My high school gym—the one built by the WPA—was in Beverly Hills, California. You can see it in the movie *It's A Wonderful Life* (it houses the pool that Jimmy Stewart and Donna Reed fall into). At first I thought it absurd that the WPA built a gym for the youth of Beverly Hills. Now I think it represents a sound principle: Public works projects should be built wherever there are projects that need building. Many of those projects will be in the neighborhoods where poor people live, but many will be in other neighborhoods. One of the good things a neo-WPA could do is take people out of the culture of the ghetto and into the mainstream working life of the surrounding city.

It's easy to get too sentimental about the WPA. A friend of mine, a veteran California politico, once heard me getting all worked up about Roosevelt's program and decided to tell me about the WPA job he had held. It consisted of acting as bookie for a work crew assigned to paint a bridge. Even the most productive of the public works operations were not as efficient as private firms.

They never will be. They'll be even less productive in today's context, when those who would take last-resort jobs are, to a large extent, unskilled men and women with little work experience. But the jobs don't have to be very productive to be a better use of taxpayer's money than our current "income maintenance" programs. At least neo-WPA workers would be producing *something*.

The proper analogy, I think, is with the military. It's no coincidence that the best WPA administrators were borrowed from the Army. The military, after all, is relatively inefficient. Like a public works program, it's a big bureaucracy. It isn't subject to a lot of competitive market forces. Yet when we need it to fight, it's usually gotten the job done. And we tolerate its inefficiency because there is no better alternative. You can't fight a war with private enterprise. And, as I suspect President Clinton will discover, you can't "end welfare as we know it" by relying on private enterprise either. □

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End Discrimination and Increase Productivity

BY SUZANNAH LESSARD

The attainment of justice for all is not the only reason we, as a society, should continue to reform ourselves in the area of gay rights, and women's rights, or the rights of any group. When society learns to accept any group as it is and strives to create an environment in which that group can thrive, there is a direct material benefit for society, which is that that group, with its unique gifts, can then begin to contribute at peak capacity. Discrimination is draining for everyone. We have been saying this for some time in *The Washington Monthly*, and it is my favorite *Monthly* reform.

Last fall I spent a great deal of time looking at schools for my 13-year-old son, an experience that has cast light on this very point from a perspective that has nothing to do with rights. My son is an unusual boy in that he is exceptionally intelligent in verbal areas and abysmal in other areas such as mathematics. This profile has a name now: He has a "learning disability," recently renamed a "learning difference." I do not mean to mock these terms. They have helped me understand my son and get him the help he needs. But even in euphemistic form, they define him by a weakness. They do not reflect his strengths, which are surely as important, and they do not capture the other unusual aspects of his personality: the quirkiness, the imagination, the somewhat unruly intellectuality.

In any event, up to the eighth grade this boy has done very well in the New York City public schools. The public schools were quick off the mark identifying the L.D.—a lot quicker than some very good private schools have been with the children of my friends—but public schools are also by nature inclusive. They don't have an agenda of sending as many children as possible to Harvard. They don't have an ideal "type" around which the school is structured. They seek to equally serve all children as they are, and in this perhaps they provide my son a more hospitable environment than a private school would. Besides, the tuition is terrific.

However, for reasons too complicated to explain here—but having to do with my son's unusual profile—it became clear this year that it would probably be best for him to switch to a private school if his parents could possibly manage it. But when we started searching for a school, everywhere we looked seemed wrong. The basic conflict was: Should he go to an academically excellent school where he would be defined by his weaknesses, or should he go to a school with supports for those weaknesses where he would not be able to fully develop his strengths? People of a therapeutic turn of mind told me that because of his deficiencies, my son would develop bad self-esteem in environments where the academic standards were very high. "What good will it do him if he gets a great education but feels like a piece of garbage?" they would say, and I could see their point. But I also found I didn't want to pay the kind of money private schools charge for anything short of excellence. I began to wonder if I harbored secret anxieties about status, if my real goal was that I wanted my son to go to Harvard regardless of whether that was where he belonged.

But the fact was that I didn't feel right about shoehorning my son into one of the "good" schools, either. It seemed like pushing a square peg into a round hole. In these schools, it felt as if both he and his parents would be constantly struggling in order to make the fit work. The prospect of paying thousands upon thousands of dollars in order to struggle in this depressing way was equally unappealing. The result of these sad choices was a growing feeling of heaviness and grimness, a sense of life as an uphill grind with meager results. Without quite realizing it, I began to feel that there was something wrong with my son. Whatever road we took, his prospects seemed something quite far short of joyful.

Then I stumbled on a school that seemed to be designed for him: The requirement for admission was IQ alone; there were no grades; children were defined by their strengths (you could be in sixth grade math and eleventh grade history and no one would care), and yet the academic standards were as high, if not higher, than those of the other schools we had considered. "Everybody has imperfections," the headmaster said when I

Suzannah Lessard, an editor of The Washington Monthly *from 1970 to 1973, is a staff writer for* The New Yorker.

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mentioned my son's learning disability.

During our tour of this school my son became excited about learning (not characteristic behavior), dancing lightly, talking about the projects he would embark on there. Having been in many environments that were wrong for him, we were now experiencing what it was like to be in the right environment: one that *valued him for his strengths*. It was as if we had left a meager universe for an abundant one. I felt a great bursting sense of my son as the brilliant, surprising boy that he is and great joy in his future.

And what do I know about that future? Not very much in one sense. Certainly not that he is going to Harvard: To my extreme relief I found out that I didn't care a fig about Harvard. This school sends plenty of kids to the Ivy League, but in this new universe the consideration of this college versus that college seems silly. Here the boy could flower as he was meant to flower, and no other issue matters next to that.

What has all this to do with women's and gay rights? It is that an affirmative situation releases megawatts of energy. I have a friend who, after many years of marriage, found in her forties that it was her nature to be with a woman. She has reported to me that she can go through a day in which the bombardment of heterosexual images from all sides can make her feel so fundamentally wrong that soon she feels the course she has chosen is literally insane and that she must immediately run back to a heterosexual life. Yet that life was so at odds with her nature that in it she ground to a halt in all areas of her life, including work. It's no surprise, therefore, that on a day when she becomes scared about her lifestyle, she also becomes drained and slow-moving as tasks become more and more disheartening and difficult to accomplish.

On another day on which she is simply in her life as it is rather than sensing it as an abstraction, she feels so right, so whole, that it takes a tremendous effort to remind herself that her living situation is controversial—that, for example, her children might prefer that she not reveal it at the PTA. On a day like that, whatever it is that she is doing seems to feed her rather than drain her. Even fatigue, in a way, is an experience of fulfillment. She says that it is impossible to reconcile these two experiences, that she's either on one track or the other. Which track serves the interests of society?

The real substance of this point is that society needs the differences. And, furthermore, those differences, fundamentally, are lodged in individuals rather than in groups. It may be necessary for people to form groups in order to get political power, but in fact what is at issue is individual empowerment. It is an irony that in the course of rights reform stereotypes almost of necessity get put in place: We fight hard for the right of women to succeed in high-powered careers, for example, and somehow in the process the high-powered career becomes the "feminist" road, and there we are stuck with a "type" again, a type that like all types is going to amount to the "wrong school" for a lot of people. When my friend feels the rightness of her experience, she does not feel like the right type; she feels like herself. That's what we want. For everyone. □

Build Single Room Occupancy Hotels

BY JASON DEPARLE

My odd suggestion for social reform is "Bring Back the Flea Bag Hotels." The main goal is to get homeless people off the streets. But there are a few places where cheap, pensione-like hotels are even promoting the class-mixing this magazine values. In the nicest ones, the fleas are gone, and open-air cafes are serving alfalfa sprouts.

The technical term here is "s.r.o.'s," for single room occupancy hotels. They sprang up in most

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downtowns during the early part of the century to house railroad workers and other transient laborers. Over time, many of them deteriorated into slum housing for drifters, drinkers, and the mentally ill. Then came developers, who, enticed by cheap land, razed the skid rows and replaced them with gallerias and office towers. Over the past several decades, as many as a million cheap hotel rooms have been destroyed.

The destruction of the s.r.o.'s, of course, isn't the only reason that street people are a fixture on the urban landscape. The other villains include the emptying of the mental hospitals, the rise of housing prices, the decline in wages, and the spread of drugs. A solution to homelessness requires not only more housing but also more forcible commitments of the mentally ill, like Yetta Adams, the woman who died from exposure in December on the doorstep of the Department of Housing and Urban Development. Still, few people understood the value of the old hotels until it was mostly too late.

The hotels are slowly coming back, in an altered, flea-free form. The new models aren't run by slumlords but by nonprofit groups which keep social workers on hand to make sure schizophrenics take their medication and addicts avoid relapses. A number of the groups have shown they can run a tight ship. One of the most impressive is the S.R.O. Housing Corporation in Los Angeles, run by Andy Raubeson, an ex-poet who grew up in a New Haven orphanage where he acquired the kind of street smarts essential to operating what is now a 1,200-room empire for the down-and-out. A visit to Raubeson's corner of skid row was refreshing, since he wasn't dispensing any boilerplate talk of turning the downtrodden into architects or lawyers. He was just getting them off the streets.

The Department of Housing and Urban Development now spends $350 million a year to help nonprofit groups build and operate s.r.o.'s, up from $76 million just a year ago. The federal money is often crucial, and ought to be increased. Most of the hotels couldn't break even without it since the rest of their money comes from the few hundred dollars a month that most street people can afford from welfare or disability checks.

But local governments can also help by (here's another good *Monthly* cause) ditching useless regulations. Building and zoning codes often drive up construction costs more than is necessary. This is partly the result of lobbying by the construction industry—to require more expensive pipes, doors and wires than safety actually demands.

The place where there has been the most noteworthy effort to change the codes is San Diego. By 1985, redevelopment had devoured a quarter of the city's 4,600 s.r.o. units. To encourage their replacement, the city approved a package of changes two years later. The changes allowed developers to use thinner fire doors, for instance, as long as they kept sprinklers in the ceiling. They could put toilets closer to kitchen sinks than codes usually allowed. And recognizing that few s.r.o. residents drive cars, the city waived expensive requirements to build new parking lots. A building boom followed, giving the city about 2,700 cheap new hotel rooms.

Cheap, but not necessarily drab. A few of the new hotels are extraordinary in their color and design. Walking through them, I couldn't get over how much the little details (the color of a baseboard, the shape of a tile) seemed to matter. And not just to me. The lack of trash on the floor or holes in the wall suggested that residents appreciated, perhaps even subconsciously, the architect's care. My suggestion for the *Monthly*'s next crusade: redistribute not just money, but beauty, too.

Much of the visual credit goes to Rob Wellington Quigley, an artsy San Diego architect accustomed to designing multimillion-dollar homes. He cut his fee and took on a few s.r.o. projects, intrigued, he said, by the challenge of giving inexpensive buildings "emotional content." He gave me a tour earlier this year, talking about the buildings' "architectural vocabulary," but what people experience is simply a nice place to be. Economy requires long halls, but he broke the monotony with alternating plastic baseboards: turquoise, navy blue, maroon. Economy requires the building to be boxlike, but Quigley arranged a striking, two-tone, painted "V" that slashed across the facade. He got better with experience, finding a design that throws natural light into hallways, adding a small fountain for white noise in the lobby. The unlikeliest touch of all was the addition of an open-air cafe, where workers from nearby offices will sit for a sprout sandwich at lunch.

Not all of the San Diego hotels are for the homeless. Many operate without subsidies and charge as much as $400 a month, meaning they cater to service workers in downtown hotels rather than street people. At the upper end, rents top $500 a month, and a few have a European feel, where foreign sailors sip espresso and students thumb novels.

Some of the cheaper hotels did turn into instant slums. Downtown businessmen worried that they were attracting too many vagrants, and San Diego eventually abolished the parking waiver, effectively forbidding the construction of any new s.r.o.'s. But the experiment offers some important lessons about where homeless people might go and how to help them get there. □

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The Enemy Is Us

Everyone knows it's those damn special interests that bedevil efforts to rein in the federal deficit. The problem is that nearly everyone these days is a special interest

BY PHILLIP LONGMAN

Demosclerosis: The Silent Killer of American Government
Jonathan Rauch, *Times Books, $22*

"At the highest levels of government, the power to decide things has gravitated from the many to the few. Instead of popular will, the government now responds more often to narrow webs of power." Who said that? A) William Greider, B) Kevin Phillips, C) Dan Quayle, or D) Bill Clinton? Actually, that's a Greider line, but it could just as well be all of the above. The idea that a narrow elite or collection of special interests is thwarting democracy and ruining the Republic has by now become such a commonplace that asserting it reveals little or nothing about the speaker's politics. The 1990s are becoming the "Them Decade," as Americans increasingly interpret their world as driven by the machinations of colluding strangers—whether Gucci Gulch corporate lobbyists, "the underclass," "the political class," or the Hollywood "cultural elite."

But what if the problem really isn't *them*, but all of *us*? That is the thesis of Jonathan Rauch's important new book, *Demosclerosis*. Contradicting the paranoia of both left and right, Rauch rightly asserts that the "American system of governance today is much less at the mercy of any narrow manipulative few than at any time in the past." The era of back room bosses who called the shots in service of rich patrons is long gone. But that has hardly brought about a more effective, or even more equitable, government, Rauch observes, because it has been replaced by a coalition representing virtually everyone. "We have met the special interests and they are us," Rauch writes. "Much as mutual funds have offered ordinary people the access to almost every type of productive investment, so interest groups have offered ordinary people access to almost every kind of redistributive investment."

What's new and different about modern politics, says Rauch, is the proliferation of non-business interest groups, from the American Association of Retired Persons (AARP) to the Sierra Club. The ability of ordinary citizens to make their voices heard through such groups might sound like a positive development for democracy. But Rauch argues, I believe correctly, that today's hyperpluralism is instead symptomatic of a disease to which all democracies are prone. For lack of a better label, Rauch labels the ailment "demosclero-

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sis"—a thickening or hardening of the body politic that leads to a loss of public purpose and eventual backlash against activist government.

The disease is triggered when citizens realize that it is far easier to enrich themselves by manipulating the political process than by creating new wealth. Sadly, the more active and successful a government becomes in solving social and economic problems, the more it becomes prone to subsidy-seeking special interests because of the increasing size of the public sector pie. This is why demosclerosis is a disease against which liberalism must be especially vigilant.

Rauch gives a succinct description of the disease's progression:

> By definition, the government's power comes from its ability to reassign resources, whether by taxing, spending, regulating, or simply passing laws. But that very ability energizes countless investors and entrepreneurs and ordinary Americans to go digging for gold by lobbying government. In time, a whole industry—large, sophisticated, professionalized, and self-serving—emerges and then assumes a life of its own. This industry is a drain on the productive economy, and there appears to be no natural limit to its growth. As it grows, the steady accumulation of subsidies and benefits, each defended in perpetuity by a professional interest group, calcifies government. Government loses its capacity to experiment and so becomes more and more prone to failure.

Governments in the throes of demosclerosis also tend to run large deficits and to invest inadequately in the future, Rauch says. The young and the unborn don't organize and lobby and so they are guaranteed losers in a system that brokers to colluding factions.

Martha Gradisher

The theory behind this analysis is not new, and Rauch makes no pretense that it is. He properly pays homage to Mancur Olson, whose 1965 book, *The Logic of Collective Action*, is the *locus classicus* of special interest studies, and to Gordon Tullock, whose pioneering work in the late 1960s opened up the academic study of transfer-seeking. Rauch does a wonderful job of popularizing this literature in an easily accessible, almost epigrammatic style. At a time when the central problem of American life is a retreat into tribalism, Rauch's message about the evils of spe-

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cial interest politics cannot be emphasized enough.

Where Rauch tends to disappoint is in his reporting of how demosclerosis manifests itself in the day-to-day of practical politics. A journeyman reporter and contributing editor to *National Journal*, Rauch was well positioned to tell that story, but he seems to have become too distracted by the abstract elegance of the theory he's popularizing to dwell on how it applies to real life issues like health care reform and Social Security.

In making his case, Rauch spends a lot of time discussing egregious but fiscally insignificant subsidies like the sugar program and not enough exposing the evils of broad middle-class entitlement programs like Social Security, veterans' benefits, Medicare, and the home mortgage interest deduction, which altogether cost the country $465 billion in 1993. To be sure, he does single out the AARP as an example of destructive hyperpluralism. But he does not demonstrate how the AARP's highly popular agenda, just to take one middle-class interest, is in fact constraining liberal government by crowding out resources and encumbering the next generation with debt. Last year, the National Taxpayers Union estimated that new programs advocated by the AARP would add $600 billion in new spending by 2002. And the AARP's staunch resistance to holding down the growth of existing middle-class entitlement programs, such as Social Security, would add another $700 billion annually unless overcome by Congress. If the retirees' agenda becomes law, there will be precious few dollars left to pay for anything but interest on the exploding debt.

Taking on seniors and other big entitlement tribes would have taught Rauch a valuable lesson that Olson and Tullock also do not offer. It is this: People do not band into factions solely out of economic motives; a dangerous admixture of self-pity and recrimination also breeds the modern entitlement ethos. Even the most fervid Gray Power activists, for example, are animated not by pure greed but by a righteous belief that any benefit rollback is akin to theft. "I'm only getting back what I paid in" is such a carefully cultivated myth that even the suggestion that their windfall benefits might be better spent on schools or feeding hungry children drives many upper middle class and rich retirees into frenzies.

Get up close enough to any transfer program and you'll find beneficiaries who nurse similiar feelings of victimization and betrayal. Civil servants are convinced they are paid less than their private-sector counterparts, and so believe they are entitled to generous pensions. Military retirees believe they are owed half pay for life starting at age 38 for the same reason, and because they feel underappreciated by a civilian-dominated society. Farmers see themselves as victims of an industrial economy in which farm prices lag behind rises in the cost of living. Beneficiaries of the home mortgage deduction claim they are owed this tax subsidy because they bought their homes on the assumption that it would always be available. And so it goes.

This phenomenon suggests transfer programs are far more than just an expression of utility maximization by economic parasites. Such programs' growing size is also a manifestation of the modern tendency of even secure, prosperous Americans to see themselves as victims of larger social forces, and of their related tendency to assert they are *owed* public benefits as a matter of due compensation or right.

How this mindset has evolved since the New Deal is a complex story. Its intellectual origins lie with postwar liberals who celebrated pluralism and social insurance as antidotes to both fascism and communism without realizing how destructive both could be to democratic virtue. In the sixties, the hubris that led many liberal policymakers to worry about "the miseries of abundance" further legitimated special interest politics by embracing the idea that the cost of virtually any group demand could be financed through huge future increases in America's "growth dividend." More recently, liberal romanticism about ethnicity and multiculturalism have reinforced dangerous tendencies toward factionalism in the U.S. that are evident in much more extreme forms around the globe, most tragically in the Balkans.

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Rauch does make passing reference to the movement among post-war liberals to celebrate interest group politics, but he nevertheless falls for the currently fashionable idea that social programs should in some way require sacrifice from their beneficiaries. "Does a program give something for nothing? Then take a dim view of it," Rauch counsels. "Instead, favor programs whose costs are covered in some substantial share by the people enjoying the benefits. The whole idea behind transfer-seeking is to capture benefits at cost to someone else, and so a good way to discourage transfer seekers is to make them pay for more of what they get."

This argument makes economic sense, but it is historically naive. Recall FDR's explanation for why he went along with funding Social Security with a payroll tax that punished the working poor: "With those taxes in there, no damn politician can ever cut my social security program." FDR correctly predicted workers could easily be persuaded that their individual payroll taxes were actually "contributions" the government owed back to them, even though the Social Security Act repeats again and again that it establishes no such contractual relationship between taxes and benefits. Instead, the Social Security Act simply allows for the transfer of resources from one set of citizens to another—it is, in other words, a welfare program like any other and should therefore be judged like any other welfare program. That is, if Congress or a majority of the people decided to trim the program to well off recipients in order to spend money on other things, recipients would have no *legal* recourse to fight the cuts. The Supreme Court has repeatedly ruled that Social Security benefits are not property and can be taken back by Congress at any time without compensation.

But as it has turned out, payroll tax financing of Social Security—and the illusion of an insurance program that it has helped sustain—has made Social Security uncuttable and virtually uncontrollable for most of its history. The lesson here is that the entitlement ethos is exacerbated every time government departs from conveying benefits on the basis of need, and instead asserts (however weakly) a connection between benefits and previous behavior. This is true whether the behavior is service in uniform or the payment of certain taxes. Far from discouraging transfer-seeking, such a strategy abets it. How? By giving a false sense of contractual right and an enveloping myth with which to rationalize whatever windfalls beneficiaries can win through political pressure. It leads to a government that shortchanges the truly needy and favors the well-organized, from agribusiness to the affluent elderly.

Rauch's warning about the evils of hyperpluralism deserves a wide audience. Unfortunately, the disease he correctly diagnoses is more subtle, dangerous, and difficult to cure than his book would have you believe. Many of his solutions are akin to suggesting that the cure to alcoholism is to stop drinking. Cut subsidies, end deficits, decentralize. OK, we'll all stop snorting out of that old bottle, starting tomorrow. The real challenge is to craft reforms that can overcome special interest thinking and exact a price from every group so that no group will feel singled out as the sole scapegoat. This means there are probably no incremental cures for demosclerosis, and that the only hope lies with reforms as universal and dramatic as the last New Deal. □

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Political Booknotes

Advertising and the Democratic Press
C. Edward Baker
Princeton University Press, $24.95
By Howard Kurtz

In the early part of this century, when the Gimbel brothers owned a Philadelphia department store, one brother was arrested, charged with sodomy, and committed suicide. Yet according to Upton Sinclair's 1920 book *The Brass Check*, not a single Philadelphia newspaper reported the news. Such was the power of a prominent advertiser that the urge to suppress any unpleasant headlines probably came naturally.

In 1991, Dennis Washburn, a *Birmingham News* columnist who edited the paper's "Wheels" section, told the *Washington Journalism Review* that the section was "designed to sell cars," and that the *News* was unlikely to jeopardize such advertising by investigating car dealers. The paper promptly fired Washburn for his candor.

Clearly, advertisers still have considerable clout with news organizations. Some newspapers simply turn over their real estate, auto, and travel sections to marketing types, who fill them with corporate fluff designed to ring cash registers. *Vanity Fair* publishes an adulatory cover story on Calvin Klein, who later places a 116-page ad insert in the magazine. *Newsweek* runs a fawning cover story on "Disney's New Magic" and later gets a contract for five million copies of a promotional issue celebrating Disney World's 20th anniversary.

Yet media mores have changed a great deal since Upton Sinclair's day. Examples of news executives shamelessly knuckling under to advertiser pressure are relatively rare, rare enough so that the capitulation itself sometimes becomes news. NBC's incendiary reporting on General Motors pickup trucks was quite shameful, but at least the network proved willing to take on GM, a major advertiser (which, predictably, threatened to pull its ads).

Most sizable newspapers have a broad enough financial base that they can easily resist threats from one company or industry. Some magazines do not, however, which is why pieces on the dangers of smoking are rare in journals that depend on cigarette ads. And commercial television is the most dependent of all, since it cannot air its programs without plenty of 30-second spots. Still, on my voluminous list of common media sins, caving in to brutish advertisers ranks fairly low.

Now comes C. Edward Baker, a law professor at the University of Pennsylvania, to argue that the sinister influence of corporate advertising "poses a major threat to press freedom." The author paints a dark picture of cowering journalists in need of rescue from all-powerful companies able to suppress unflattering news with a single phone call, or even the imagined threat of one.

Baker's indictment, drawn solely from secondary sources, is unconvincing. The professor seems to have little idea of how newsrooms actually work. He blames advertising for the decline in newspaper competition, apparently forgetting that cable TV, talk radio, computer services, and a hundred other infotainment alternatives have stolen part of the newspaper industry's audience. Many newspapers have become bland and inoffensive not because they're worried about the local supermarket or department store, as Baker believes, but because they're scared of alienating any segment of their remaining readership.

The author, whose leaden academic prose will appeal only to a specialized audience, assumes a degree of financial cunning that is missing from most newsrooms. To argue that publishers and editors "tailor message content" to maximize advertising revenue is to take a conspiratorial view of the media. In fact, most journalists like kicking advertisers in the teeth now and then, if only to demonstrate their independence. For every *Birmingham News* there are newspapers like New Jersey's *Bergen Record*, which boldly published fraud allegations against its biggest automobile advertiser, a local Chrysler dealer, who promptly pulled his $1.6 million a year in ads.

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Baker's few examples of advertiser pressure actually undercut his own argument, for they show that news organizations are willing to publish and damn the consequences: The Washington State Fruit Commission pulls $71,000 worth of ads from CBS after "60 Minutes" airs a critical report on the hazards of the fruit pesticide Alar. Proctor & Gamble withdraws $1 million in ads from Boston's WHDH after it carries an ad criticizing the company's Folgers coffee. Cigarette companies cancel their ads in *Mother Jones* after the magazine runs an article on the hazards of tobacco. This hardly proves the author's contention "that advertisers buy a 'kept' mentality in relation to the press."

To be sure, some newspaper owners and managers have pro-business sympathies, and this may subtly affect daily news content, even without any explicit orders to subordinates. It's hardly an accident that few papers have fulltime consumer reporters any more, or that the consumer's perspective is often missing from business stories. But this doesn't mean the papers are kowtowing to advertisers, merely that such reporting has fallen out of fashion.

Yet Baker can't resist throwing every stray allegation into his evidentiary pot. Thus, CBS's refusal to continue losing $1 million a pop by airing news specials during the Persian Gulf War is cited as further evidence of capitulation to advertisers, rather than a recognition that news increasingly takes a backseat at networks devoted to entertainment.

Baker's thesis is as follows: Advertisers favor affluent readers to whom they can peddle more perfume or Porsches. Newspapers and magazines therefore alter their content so as to lure these well-heeled customers and avoid offending corporate sponsors. If publications could be made less dependent on advertising, they would be free to crusade to their hearts' content, to appeal to all readers instead of just monied folks.

What Baker seems not to grasp is that most editors would be chasing yuppie readers (with whom they identify) regardless of advertising. Low-income folks in Harlem or South-Central L.A. are not the prime consumers of *The New York Times* or the *Los Angeles Times*; that is why neither paper had a separate weekly section for city readers until recently. What's more, the media's move toward softer and more superficial fare is part of a frantic attempt to stem a 30-year decline in readership levels. The advertising, while important, is quite secondary.

Even if the author is right that advertising subtly corrupts the news business, his remedies are both far-fetched and politically unrealistic. He proposes a 10 percent government sales tax on newspaper advertising, with the money plowed back into the papers based on circulation. This subsidy, he argues, will tilt the publications away from corporate sponsors and toward the interests of readers currently unwanted by advertisers. But the likely impact would be marginal, except for giving politicians more sway over the press by allowing them to fiddle with the formulas. Other proposals—legally barring advertisers from using their clout against news organizations, requiring television to randomly schedule commercials so as to reduce corporate influence over any one program—would be impossible to enforce. Even Baker concedes that his ultimate plan, using the advertising tax to fund public broadcasting, is a tough political sell.

Baker's book is useful insofar as it forces the reader to consider these issues in a new light. But whatever the problems of advertiser-subsidized journalism, more government intervention—with the sort of political grandstanding and bureaucratic overkill made famous by the battles over the National Endowment for the Arts—is most assuredly not the answer. One free-market solution would be for more reporters to blow the whistle on their brethren, embarrassing the hell out of anyone who sells his journalistic soul to corporate devils.

Howard Kurtz, a Washington Post *reporter, is the author of* Media Circus: The Trouble with America's Newspapers *(Times Books).*

The Mad Among Us: A History of the Care of America's Mentally Ill

Gerald N. Grob

Free Press, $24.95

By E. Fuller Torrey

The voting record of mental health professionals is more consistently liberal Democrat than any other group of professionals in America. In presidential elections, 79 percent of psychoanalysts voted for Adlai Stevenson in 1952, 85 percent for Stevenson in 1956, 90 percent for John Kennedy in 1960, and 95 percent for Lyndon Johnson in 1964. Even social scientists teaching in universities, a professional group well known for liberal propensities, gave Johnson only 90 percent of its votes in '64. Given the political persuasion of mental health professionals, it was hardly surprising that the John Birch Society attacked them in the fifties as being Communist agents, or that Presidents Nixon and Reagan were less than enthusiastic about mental health programs.

The history and politics of America's mental health establishment have never been fully analyzed. Gerald N. Grob, a professor

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of the History of Medicine at Rutgers University, is uniquely qualified for the task. Since 1966, he has published four books on America's care for its mentally ill in different historical periods. His current book is a distillate of those four books, together with an update of the current scene.

Grob succeeds admirably in describing the history and politics of almshouses and insane asylums from colonial times through World War II. He has mined the voluminous primary sources for anecdotes and arguments, and skillfully ties the various phases and fashions of psychiatric care to the social and political milieu of the times. His one major and rather surprising omission during these years is giving almost no space to Sigmund Freud.

It was Freud's curious belief that parent-infant interactions were the cause of serious mental illnesses. This belief underlay the mental hygiene movement of the 1920s, which advocated psychotherapy for all problem children and promoted the widespread idea that therapy would prevent the development of serious mental illnesses. That movement in turn spawned the community mental health movement of the 1960s, which operated on the belief that tender loving care and a warm home—as opposed to medication and rehabilitation—were all that patients leaving state mental hospitals needed in order to live in the community. Freud was the spiritual father of community mental health, the psychiatric Charon who directed the boats across the river Styx to the social disaster that we call deinstitutionalization.

The last quarter of the book, covering 1950 to the present, fails rather badly. Grob describes various events and developments but is unable or unwilling to put them into a social and political context. The failure of community mental health centers to take responsibility for individuals being discharged from state psychiatric hospitals, the abandonment of seriously mentally ill individuals by most mental health professionals who preferred the private practice of psychotherapy, and the continuing dumping of patients onto the streets and into jails in 1990—just as Grob had described it happening in 1830—these and related events appear to happen like random droppings from birds overhead. Grob seems to be paraphrasing a contemporary bumper sticker: "Things Happen."

For an historian, a recital of random events is not sufficient. Deinstitutionalization of America's mentally ill was the single largest social experiment of 20th century America (with the possible exception of the New Deal), and its failure is visible to every American not living in a cave. Grob describes people like Larry Hogue, a mentally ill substance-abuser who has attracted national attention by terrorizing an upscale Manhattan neighborhood.

But Grob never makes clear the fact that Hogue is the direct product of decisions made by the National Institute of Mental Health, America's mental health professionals, and New York State's community health centers to devote the majority of their time to counseling and psychotherapy for less serious cases rather than to treating the seriously mentally ill. At fault, too, are advocacy efforts by the Mental Health Law Project and the American Civil Liberties Union to make involuntary hospitalization virtually impossible, and the New York State legislature's failure to pass an outpatient law which would have made Hogue's freedom contingent on taking medication.

Another example of Grob's failure to deal with contemporary events is when he says that John Kennedy's "younger sister Rosemary had been diagnosed as mildly retarded and had undergone a lobotomy which had appreciably worsened her condition." Grob must be aware that lobotomies were never used for people who were merely "mildly retarded." Published historical accounts are plentiful in strongly suggesting that Rosemary Kennedy developed schizophrenia in addition to her mild retardation, and that is the reason she was given a lobotomy. It is quite understandable that the Kennedy family itself has remained silent on this issue, perhaps out of respect for Rose Kennedy, who is still alive, but it is not understandable when an historian does. Rosemary's condition was a major reason—probably *the* major reason—President Kennedy supported legislation to create the community mental health centers.

Grob's inability to place contemporary events into a social and political framework may be partly related to his long support by the National Institute of Mental Health, which he credits in the preface as having "been extraordinarily generous in providing a succession of grants." At the end of the book he also seems genuinely puzzled regarding how the lessons of the past can be applied to the present: "It would be useful if knowledge of past policies could offer a sound prescription for the present and future. Unfortunately, the 'lessons' of history are less than clear and often fraught with contradictions and ambiguities." This is very disappointing.

Grob will remain a respected historian on the care of the mentally ill in early America, but the definitive social and political history of events in the second half of the 20th century must await another book. Since politics and mental health professionals are close bedfellows, it should prove to be a fascinating history.

E. Fuller Torrey, M.D., is a research psychiatrist in Washington, D.C. His most recent books are Freudian Fraud *(HarperCollins, 1992) and* Schizophrenia and Manic-Depressive Disorder *(Basic Books, 1994).*

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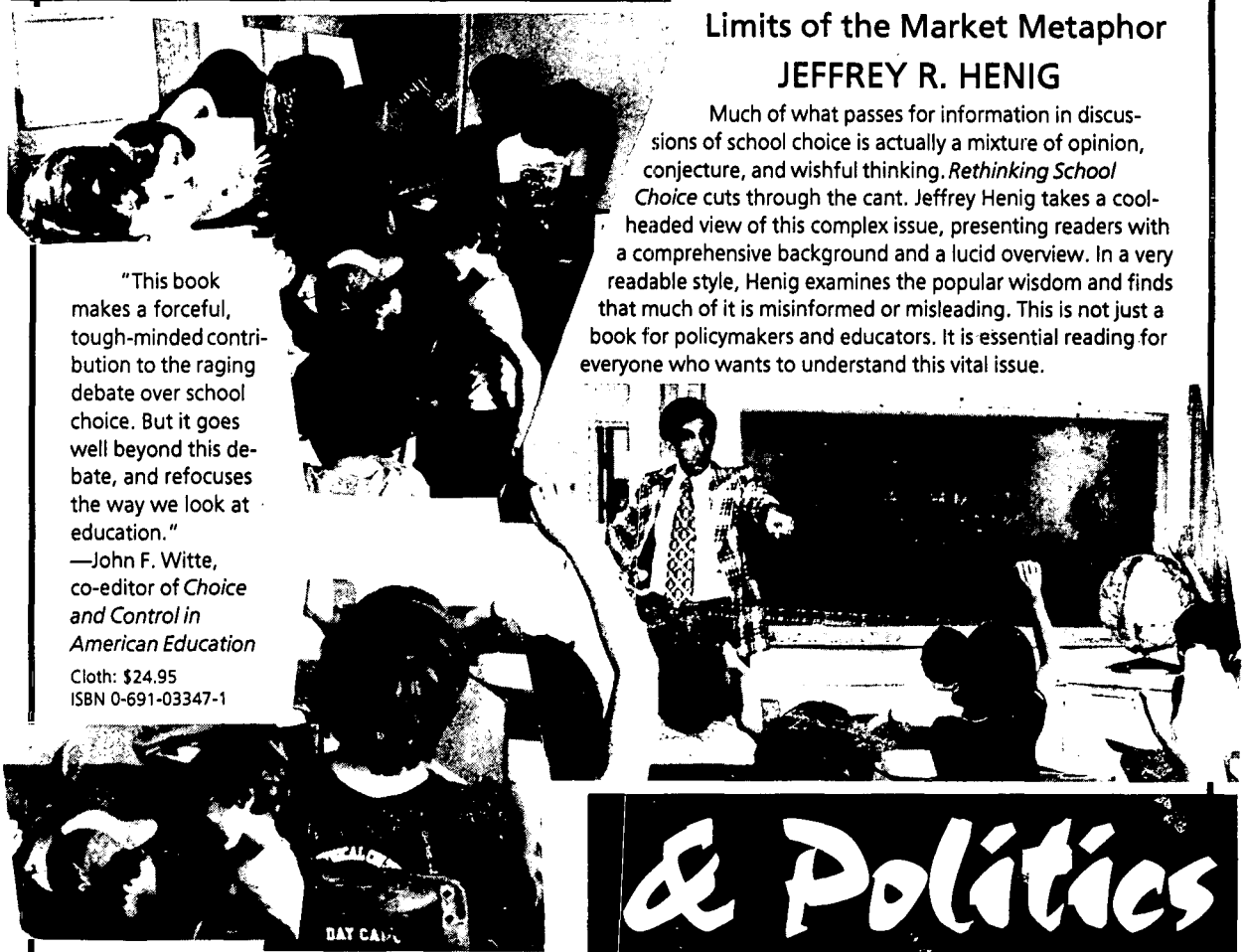

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